APRIL 10
1 9 3 7

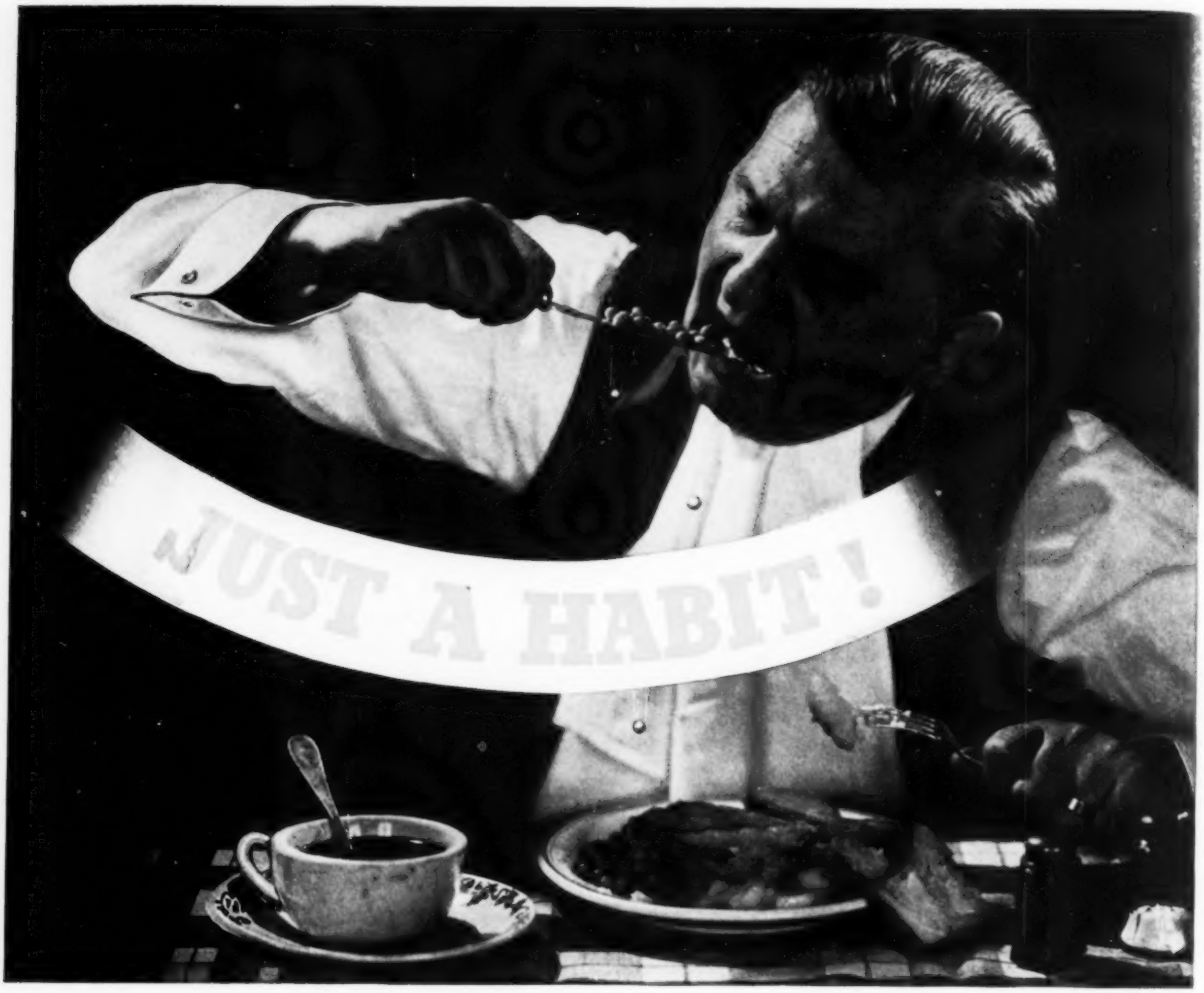
BUSINESS WEEK

FULL STEAM AHEAD—With business on the upgrade and the world rearming, total foreign trade—at the highest level since autumn, 1930—heads toward a new boom.

McGRAW-HILL PUBLISHING COMPANY, INC.

20 CENTS

A Report to Executives
BUSINESS, THE BANKS, AND WORKING CAPITAL
In This Issue



Bound by habit, thousands of users of pipe and sheets continue to contribute to the billion-dollar orgy of rust and corrosion by using ordinary ferrous materials for all types of applications. • Others, however, refuse to suffer needless loss of time and money due to premature failures and frequent replacement. Where corrosion is a deciding life factor, they use Toncan Copper Molybdenum Iron—the alloy that is industry's ally in curbing rust and corrosion. Write for information.

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HIGHEST RUST-RESISTANCE IN ITS PRICE CLASS

Toncan Iron is available through distributors in pipe and sheets and may be had in bars, plates, roofing, siding, tubing, boiler tubes, bolts, nuts, rivets, wire, welding rods, ground rods and corrugated culverts. . . . For ordinary service, these Republic products may be had in steel or copper-bearing steel.

Republic Steel Corporation

GENERAL OFFICES . . . CLEVELAND, OHIO

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New Business

THOUGH East and West may never meet, they have a common denominator in movies. National City Bank of New York has its sound motion picture, "The March of Trade," telling the story of how international finance weaves the threads of living among all peoples. Bank of America, San Francisco, tells the story of its copyrighted "Time Plan" of small loans for automobiles and household equipment and for cushioning home emergencies, through a series of movies, one of which has the engaging title, The Price of Babies is Thirty Dollars per Pound."

•

Index of business during 1937's first quarter, and harbinger of business yet to come, is the increase in equipment sales booked by Addressograph-Multigraph Corp., Cleveland. January, February, and March ran 46% beyond the same months in 1936.

•

"DEAR Sirs: I am in trouble with some of your tyres," writes an English customer to the B. F. Goodrich Co. "They leak gradually and not through the valve. They are rather old, being single tube tyres of 1900 date of manufacture. They are on a Locomobile steam car that I am overhauling for a famous collector . . . Have you any useful ideas on how . . . to cure their porosity?" Goodrich is sending a special compound to preserve the tires (spelled with a "y" in England) for several years.

•

WHEN Waverly Press, Baltimore, rearranged its monotype room, it took particular care so to seat operators that each could not watch the others. Results to date: 10% savings in composition costs; 50% reduction in typographical errors.

•

MOST recent convert to the pocket-size *Readers Digest* format is *Norge Monthly News Digest* of Norge Division, Borg-Warner Corp., Detroit. Everything from new products to radio programs to sales helps—and a grand publishing job.

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WHEN Queen Wilhelmina of the Netherlands today (April 10) breaks a bottle of champagne over the bow of Holland-America Line's new flag-

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ship and names her *Nieuw Amsterdam,* it is to be hoped that she knows the new-launched 33,000-ton liner carries a 300-ton cooling system designed especially by Carrier Corp., Newark, N. J. The *Nieuw Amsterdam* air-conditioning equipment is 75 tons larger than that of *S.S. Queen Mary,* and 114 tons larger than that of *S.S. Normandie,* both of which were likewise installed by Carrier.

•

COTTON-TEXTILE INSTITUTE unveils the first of 125,000 posters which will help publicize the official 1937 National Cotton Week, May 31 to June 5,

and to symbolize cotton's "all-purposefulness." This key-piece of an extensive variety of promotional material will be used in miniature on letterheads and envelope stickers.

•

AN advance copy of "The Almanac of Office Equipment," shortly to be published by Edward H. Harris Organization, 540 N. Michigan Ave., Chicago, lives up to its foreword, all 384 pages of it. It is "full of the kind of information which you will need to get lasting and efficient service from the machines you use."

•

BUSINESS philately note: McLaurin-Jones Co., Brookfield, Mass., manufacturer of gummed papers, breaks into the public prints to popularize the use of "Product Stamps" for quick and sales-provoking attachment to sales letters and what-have-you. The Meyers Co., Inc. will handle the account.

•

GENTLY kidding the type of detective story made popular by "Crimefile Dossier," Baldwin-Duckworth Chain Corp., Springfield, Mass., creates its own Sherlockian character, A. Balduck, and puts him to the task of solving "Dossier A-1," a problem in conveying hot glass through hot places.

Washington Bulletin

WASHINGTON *(Business Week Bureau)*—The New Deal machine is laboring in deep mud. Wheels are spinning, the motor racing, but the body is just bouncing up and down. At any moment the wheels may take hold and the car lunge forward, but no one can be sure right now when that much-desired traction will be gained.

It all began when the machine turned off the hard concrete of Roosevelt's power and prestige which led in broad curves toward the New Deal objectives. The chauffeur didn't like the curves. He saw a new, broader and straight-as-a-string road just a little to the left. It was marked "Supreme Court enlargement." He turned the machine into it, thinking of the time that could be saved, but not noting the mudholes. And that's where the whole business is today.

Other Holes Ahead

Government reorganization is another mudhole ahead, but it is not a dangerous one. It may spatter up the car, throw a bit of mud in the chauffeur's eye. He might wish he could have avoided it because he may not get what he wants, even at the price of grief. But it will not hold the car back from its progress. However, he can't even get to that until he gets out of this Supreme Court mud. Nor can he get to the mile posts along the concrete highway—regulation of wages and hours—prohibition of child labor—control of crops to avoid surpluses.

—And Budget Troubles

Meanwhile, other difficulties impend, not concerned so directly with the mudhole and yet affected by it because some of the passengers are losing confidence in the chauffeur. For instance, the budget. Here revenues are promising to be hundreds of millions of dollars below estimates. Spending promises to keep up at the old rate. The President has set his face against new taxes, despite certainty that they *must* come.

Jarring Prices, Too

Rocketing prices for steel, copper, and other commodities jar the President's dream for planned economy and small profits. Inflation and fear of inflation depress government bond prices. Interest rates climb and threaten further to boost the government's fixed charges at every future financing, and the wheels still spin in the mud.

Relief in the Way

Budget estimates already badly strained by optimistic estimates of tax revenues will be thrown further out of whack when relief needs are recalculated. Even with considerable reductions in WPA spending in recent weeks, an estimated deficit of $200,000,000 to carry the relief program to July 1 will raise the total for the present fiscal year to about $3,000,000,000, as compared to $2,776,000,000 last year. As the President's December budget estimate allowed only $1,853,000,000 for the next fiscal year, the difficulty in approaching a balanced budget is not concealed by the probability that revised estimates which Roosevelt will submit to Congress next week will make only partial allowance for the continuing relief load.

> ***ANTI-TRUST SPUR***
>
> ***Anti-trust law revision, agitated by John Dickinson when assistant attorney-general, promises to become a lively issue with submission soon of a report by Attorney-General Cummings on the year-long investigation of alleged collusive bidding on government contracts by steel companies. Roosevelt is interested, entirely apart from the blame he is disposed to lay on industry for the present price situation.***

Shifting Blame for H. C. of L.

Roosevelt has under consideration asking Congress for power to put an export embargo on selected commodities when, in his judgment, prices on the domestic commodities go too high. His thought is to build up sentiment for this authority by linking foreign purchases of war supplies in this country with present high prices and by labeling corporations that sell such goods as guilty of war profiteering as well as guilty of boosting the cost of living here. This attack would serve another purpose in shifting apparent responsibility for the higher cost of living from the Administration's labor and tax policies to the "economic royalists."

TVA Serves as Tipoff

Just how much substance there is to Roosevelt's threat of curtailing government expenditures for dams and other structures which encourage production of durable goods will be evidenced by what he does to the Tennessee Valley Authority's budget for next fiscal year, which still has to be O.K'd. TVA's construction program calls for an outlay of $35,000,000 to $40,000,000 in the year beginning July 1.

Presidential Flood Control

With half a hundred proposals pending, flood control legislation is bogging down, due to lack of a concerted program at the White House and in Congress. Roosevelt this week applied a partial remedy for hit-or-miss construction by tripping up the customary procedure in obtaining pork-barrel funds with a requirement that, from now on, project surveys made by the Corps of Engineers, Reclamation Service, and other government agencies must be cleared through the White House. Thus the President can spot projects where he thinks they will do the most good and, incidentally, hold the purse strings on money sought for the home district by every ambitious congressman.

Power Rate Arbiter?

Postponement of further hearings on the Bonneville Dam power marketing bill forecasts restoration of a provision setting up the Federal Power Commission as rate arbiter for all government "surplus" power production. This was included in last year's bill but omitted this year because Ickes' special commission is still meditating on broad power policy of government. But the Administration's hand is being forced by protesting Boulder Dam customers, who face the necessity of accepting large blocks of power ahead of schedule and are worrying about the potentialities of low-cost steam competition.

Sidestepping a Sitdown Law

The Senate's vote on sitdown strikes may not have been an accurate gauge of its sentiments on this question, but it was very revealing in another direction. White House pressure was thrown against the Byrnes amendment, and the frank statement was made that the matter should not be dealt with in an amendment to a bill such as Guffey Coal Act, that the President would have to sign, but rather in a resolution which would merely require the votes of both houses and would not put the President on the spot. Interesting also is the fact that such

a resolution, acted on this week, is merely an expression of opinion. It has no force of law.

Bowing Out

At least two, perhaps three, Supreme Court justices will announce their retirement at the end of the present term, according to the private conversations of New Dealers. The have informed their colleagues of three—two of whom are alleged to their plans, are Justices Van Devanter, Sutherland, and Brandeis—two conservatives and one liberal. Assuming that they would be replaced by three New Dealers, such a change would be enough to reverse most of the anti-New Deal opinions, always excepting NIRA.

Confident on Court Compromise

Word of the impending retirements has changed the whole complexion of the fight for the President's Court enlargement program. Senators informed of the situation are now confidently predicting compromise or possible withdrawal of the judiciary reorganization bill so far as it relates to the Supreme Court. There has been no particular opposition to the changes proposed with respect to the lower courts nor to the plan for expediting Supreme Court review of constitutional test cases.

No "Justice Cummings"

Attorney General Cummings is likely to be one of the sacrificial victims of the President's Court fight. The Justice Department head has taken a terrific pounding and has made enemies in the Senate who, according to their well-informed colleagues, will make his confirmation impossible should the President attempt to reward Cummings by naming him to the bench.

Competition for Pan American

Desire for competition in foreign air transport is given as the reason why the Glenn L. Martin Company, builder of the first *China Clipper* for Pan American Airways, was privately encouraged by government officials to undertake the building of ships for a new concern that will be organized to compete with Pan American Airways in transatlantic service.

Alternatives

Several offside proposals for attaining the New Deal's labor objectives, revived by the Supreme Court's liberal interpretation of the due process clause, are finding favor—principally, of course, among their sponsors, who include both social theorists and outspoken opponents of Roosevelt's direct approach. One such expedient is to bar interstate transportation of goods not produced in conformity with statutory wage and hour standards of the states into which they are shipped. This technique, now applicable to prison-made goods, also would be invoked to prohibit traffic in the products of child labor.

Setting Standards for States

By another scheme, wage and hour standards established by Congress would be held up to the states for enforcement under their wider powers, and under another far-fetched scheme the screws would be put on recalcitrant states by signing treaties with foreign nations governing hours and working conditions. This last is inspired by the fact that an international textile labor conference in session here is talking—just talking—about a 40-hour week.

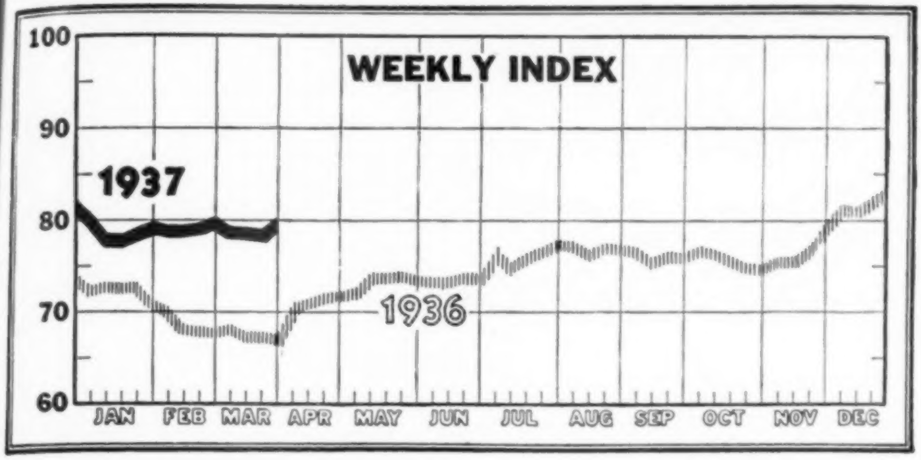
Preserving Trucks' Independence

Agitation is growing in the trucking industry for amendment of the Motor Carrier Act to place further curbs on railroad ownership of truck lines. While the Interstate Commerce Commission has established the rule that a railroad may not purchase a motor carrier for the purpose of competing either with other motor carriers or with railroads, this has had no apparent effect on the constant stream of railroad proposals to acquire truck lines as auxiliaries. Advocates of restrictive legislation point to the railroads' mounting investment in truck companies, now figured up to $10,000,000, as demonstrating the necessity of preventing the railroads from absorbing properties constituting the backbone of the industry.

Allocating Air Channels

Representatives of the State Department and the Federal Communications Commission who talked with Canadian, Cuban, and Mexican radio officials about divvying up the air waves at an informal conference in Havana, ended last week, aren't making any formal report of their agreements, but apparently talks were more successful than those in Mexico City four years ago, and as a result it is understood Mexico will clamp down on the 11 border stations which have been bombarding the Southwest with advertising ruled off the air here. In return, Mexico and Cuba, which have only had squatters' rights to the air so far, will probably win special channels all for themselves or shared channels at the Pan-American radio conference next November—a western hemisphere prelude to the world conference in Cairo, Egypt, next February.

BUSINESS WEEK'S INDEX OF BUSINESS ACTIVITY



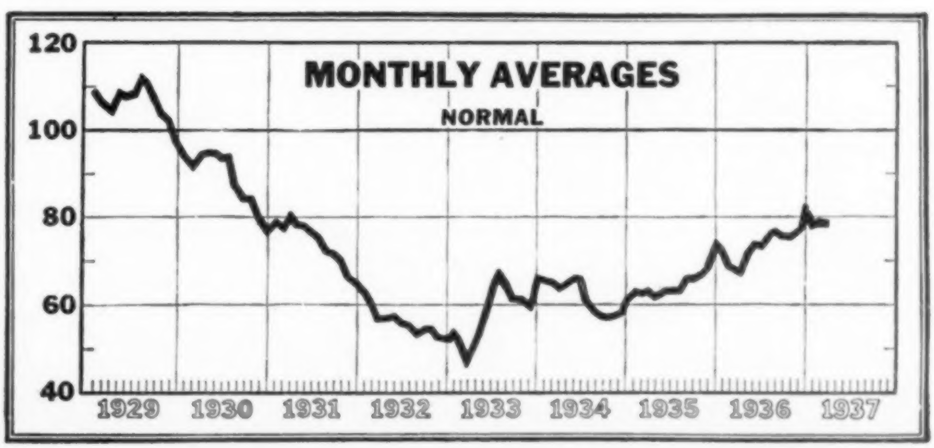
The Figures

Latest Week	*80.1
Preceding Week	79.0
Month Ago	80.2
Year Ago	71.1
Average 1932-36	61.0

	Latest Week	Preceding Week	Month Ago	Year Ago	Average 1932-36
PRODUCTION					
★Steel Ingot Operation (% of capacity)	89.9	90.7	87.3	64.5	38.3
★Building Contracts (F. W. Dodge, daily average in thousands, 4-wk. basis)	$8,232	$8,400	$9,703	$7,360	$4,632
Engineering Construction Awards (*Engineering News-Record*, 4-wk. daily av.)	$7,043	$6,639	$8,543	$5,896	$3,876
★Bituminous Coal (daily average, 1,000 tons)	•1,876	†1,854	1,878	1,050	1,231
★Electric Power (million kw.-hr.)	2,147	2,200	2,200	1,916	1,633
TRADE					
Total Carloadings (daily average, 1,000 cars)	127	127	124	99	96
★Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	81	81	79	70	64
★Check Payments (outside N. Y. City, millions)	$4,876	$4,836	$5,272	$4,818	$3,360
★Money in Circulation (Wednesday series, millions)	$6,377	$6,375	$6,407	$5,884	$5,662
PRICES (Average for the week)					
Wheat (No. 2, hard winter, Kansas City, bu.)	$1.41	$1.41	$1.38	$1.02	$.76
Cotton (middling, New York, lb.)	14.99¢	14.88¢	14.13¢	11.64¢	9.57¢
Iron and Steel (*Steel*, composite, ton)	$40.19	$40.13	$39.47	$33.13	$30.78
Copper (electrolytic, Connecticut Valley basis, lb.)	16.667¢	16.375¢	15.625¢	9.250¢	7.444¢
Moody's Spot Commodity Price Index (Dec. 31, 1931=100)	226.8	226.4	215.2	169.2	127.4
FINANCE					
Bond Yields (Standard Statistics, average 45 bonds)	4.41%	4.42%	4.27%	4.27%	5.38%
Interest Rates—Call Loans, Renewal, N. Y. Stock Exchange (daily average)	1.00%	1.00%	1.00%	.75%	1.65%
Interest Rates—Prime Commercial Paper, N. Y. City (4-6 months)	1.00%	.75-1%	.75%	.75%	1.88%
Business Failures (Dun and Bradstreet, number)	185	189	174	221	345
BANKING (Millions of dollars)					
Total Federal Reserve Credit Outstanding (Wednesday series)	2,458	2,463	2,457	2,477	2,352
Excess Reserves, all member banks (Wednesday series)	1,400	†1,269	1,310	2,338	1,193
Total Loans and Investments, reporting member banks	22,273	22,560	22,718	21,621	19,183
Commercial Loans, reporting member banks‡	4,853	4,829	4,692	3,935	‖
Security Loans, reporting member banks	3,356	3,367	3,280	3,313	3,845
U. S. Gov't. and Gov't. Guaranteed Obligations Held, reporting member banks	9,595	9,901	10,275	9,908	‖
Other Securities Held, reporting member banks	3,312	3,312	3,322	3,321	‖

★Factor in *Business Week* Index. •Preliminary. †Revised. ‡New Series, Excluding Real Estate Loans. ‖Not Available.

These monthly averages are merely simple averages of each month's weekly figures of *Business Week's* index of business activity presented in the chart at the top of the page. They enable readers to get a general view of the trend of business since 1929.



The Business Outlook

LEADING factors affecting business in the past week were the settlement of the month-old Chrysler strike following upon the recent agreement for the soft coal industry; continued sitdowns hampering General Motors; a rebuke and warning from the President for the price and production increases in the durable goods field, particularly copper and steel; another week of unrelieved suspense concerning the Supreme Court's attitude on the constitutionality of the Wagner Act; a Federal Reserve easy-money decision which in effect temporarily reverses the Eccles policy of bank reserve restrictions; stock and bond prices still subjected to pressure after an extended shakedown; a softening in commodity prices such as rubber, copper, cotton, and grains; and continued dullness in cotton gray goods markets.

PROFITS UP 47%

Some 2,140 corporations in the manufacturing, railroad, public utility, finance, and real estate fields earned a profit of over $3,632,000,000 in 1936, gaining 47% over 1935, according to the National City Bank. This meant a return of 7.4% on their combined net worth against 5% in 1935. Gains of over 100% were reported in paper, restaurant chains, steel, shipping, building materials, hardware, heating and plumbing, machinery, department stores, tires, and amusements. Manufactures earned over 10% on their net worth, automobiles were tops with 24.6%, and coal, mining footed the list with a return of only 0.7%.

Steel Not Worried

Steel markets were not inclined to get ruffled over the criticism hurled at them, pointing out that part of the increased costs resulted from Administration policies with regard to the 40-hour week, which is specified in the Walsh-Healey Act. Moreover, *Iron Age* estimates that only 5% of present steel production is for government jobs.

But Copper Pays Attention

In copper markets, the attitude was somewhat different because the industry was never unanimous on the wisdom of pushing prices up to the 17¢ level. The President's comment coming on top of an already unsettled London market was sufficient to cause further uneasiness abroad and ultimately to unsteady the domestic market. Copper was marked down to 16¢ early in the week, followed by cuts in lead and zinc. Further cuts in copper, at least, would not be surprising.

All-Time March Record

Steel markets note a slight reduction in new business booked early in April, but such a reaction following the brisk business of preceding weeks caused no surprise. Official figures for March indicate that all weekly estimates of steel activity were understated, that March actually averaged 90% of capacity, the biggest March on record. At 85% of capacity, against 55% in 1936, the first quarter set a new tonnage record for the period. And no important curtailment is yet in sight.

Coal Will Rise 25c

Coal consumers will bear the costs incurred by the settlement of the soft coal controversy which added $85,000,000 to the payroll of 300,000 miners in eight states. About 25¢ a ton will be added to coal prices. Steel producers found a number of coke prices boosted by 50¢ to 75¢ a ton this week, thereby raising pig iron costs. The heavy coal production season has been completed, and stocks of coal in the hands of industrial concerns are 66% greater than a year ago, presaging substantial curtailment in coal operations over the next few weeks.

Doing Much Painting

Paint and varnish manufacturers report sales in the first two months to be running 36% ahead of the same months of 1936. Sales probably rose in usual fashion in March, the month when the spring season really gets under way. With the residential, industrial, and commercial building market getting into full swing over the next few months, paint sales are bound to expand.

Building More Plants

A $2,200,000 contract for the long-heralded tire-making plant for Ford helped swell this week's engineering construction to $50,778,000, the second highest week of the year. Two large light and power plant projects, one for $2,500,000 in Pennsylvania and one for $1,500,000 in Lansing, Mich., indicate that the utilities are embarking upon their more liberal construction program for 1937. F. W. Dodge reported 164 light and power projects valued at $16,124,000 in the first two months of 1937, against 71 in the same period of 1936, valued at $4,117,000.

Farm Tool Prosperity

Closely concerned with the well-being of the farmer are the agricultural equipment manufacturers, who last year did 45% more business in tractors, combines, and grain threshers than in 1935. Their total volume of business probably approximated $450,000,000, the best since 1930, and in 1937 the prospects for approaching the 1929 volume of $571,000,000 are bright.

Freight Cars in Demand

Shippers who estimated they would require 9.2% more freight cars to ship their wares in the first quarter of 1937 compared with last year (and actually used 15% more cars) have now come forth with their regular quarterly appraisal for the next three months and have placed the figure at 7.5% above car requirements of the second quarter of 1936. This means an 8% gain over the first quarter this year. It is brought about chiefly by sharply increased traffic in ores, lumber, petroleum, iron and steel, cement, and other building materials, offsetting cuts in coal and coke, cotton, and grains.

Shoes Will Cost More

Shoe retailers, manufacturers, and tanners who met this week to consider fall styles in footgear came face to face with rising costs of both materials and labor, and freely predicted higher shoe prices over the next few months. Leather has advanced 25% since the show six months ago. Tanners are not worrying about booking business. Shoe production in the first two months ran 14% ahead of last year, when an all-time record was set.

Wool Prices Rise

Prices remain the feature of the wool markets, with carpets and rugs this week following the higher prices recently posted for wool cloths. February activity in the woolen industry was higher than expected. In the cotton field, work clothing ran into higher prices. Silk consumption, only 4% ahead of the first quarter of 1936, has been completely eclipsed by the gains in other fibers.

BUSINESS WEEK

APRIL 10, 1937

F.D.R. and Eccles Reverse Selves

They got what they wanted: higher prices and credit control—and now that's their tragedy. Roosevelt wants prices lower, and Eccles reassures banks.

"In this world there are only two tragedies. One is not getting what one wants, and the other is getting it. The last is the real tragedy."

And, if Oscar Wilde was right, then this week there are two major tragedians and one minor in Washington officialdom.

The first is President Franklin Delano Roosevelt. The second is Federal Reserve Board Chairman Marriner S. Eccles. The third is Secretary of the Treasury Morgenthau.

Mr. Roosevelt got what he wanted: higher prices and a rollicking business recovery. It took time to get them. At first only consumer goods responded to the prod of federal spending. But later, beginning in 1935, the heavy industries got going. The result: full-fledged recovery and strikingly higher prices. And now that durable goods (according to the Federal Reserve Board index) are coming close to joining hands with non-durable goods, the President is worried. He has what he wanted and doesn't quite know what to do about it. That is his tragedy.

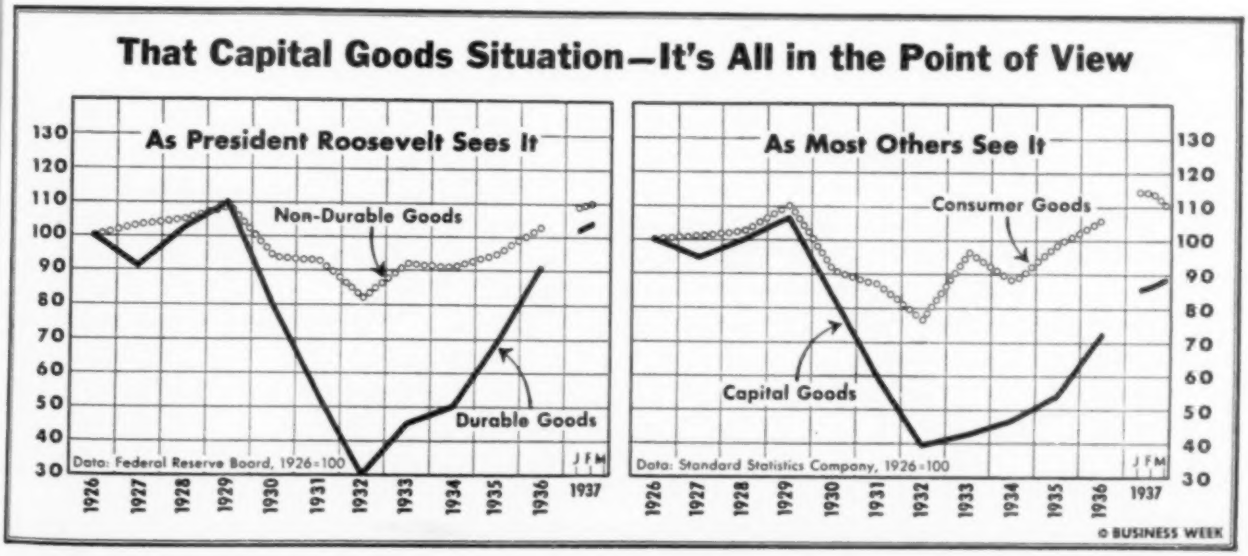
The second tragedian wanted easy money and easy credit, and he engineered that. Then, he wanted control over the huge credit expansion powers of the Federal Reserve member banks. And Mr. Eccles got that by boosting reserve requirements, thereby whittling down excess reserves. Now that he has all those instruments, he, too, is worried, and is ready to reverse himself. Mr. Eccles is prepared to use the Federal Reserve System's open-market powers to buy government bonds. His ostensible purposes are two: (1) to boost reserves all over again, thereby keeping credit easy, and (2) to tide the banks over the bump of the May 1 boost in reserve requirements.

Only Sec. Morgenthau is not afflicted with what Wilde would term "the real tragedy." Mr. Morgenthau, as yet, does not have what he wants: (1) a balanced budget and (2) a strong government bond market—the first to put an end to his continual deficit financing, the second to enable him to refund short-term government indebtedness with long-term bonds.

The balanced budget still seems to be a distant vista. March tax receipts have been disconcertingly low—perhaps because many individuals and corporations that formerly made lump-sum payments, adopted the quarterly instalment plan; perhaps because the undistributed earnings tax bore fewer tax dollars than Treasury experts estimated. In any case, Sec. Morgenthau is likely to go to the market to borrow again before the end of this fiscal year —June 30. That is his tragedy.

The three principals in this tragedy of paradox, act and interact upon one another. Thus, the announcement of the Federal Reserve that it was prepared to go into the open market and buy government bonds was undoubtedly an attempt to help out Mr. Morgenthau's sickly U.S. bond market. Certainly there was no other compelling reason for the statement.

Credit continues comparatively easy, despite recent hardening in some money rates, such as commercial paper



ECONOMIC EYEBROWS LIFTED—When President Roosevelt declared that durable goods production was about up to non-durable goods, economists wondered. Despite the recent bumper steel output, most indexes continued to show a wide gap between consumer and capital goods and that gap is still clearly observable on the chart on the right. But President Roosevelt was using a special durable goods index—the Federal Reserve index of manufacturing output, an index which is heavily weighted with steel. The index here (on left) has been recomputed to a 1926 base to make it comparable with the Standard Statistics curve of consumer and capital goods. The latter (on right) includes construction, which the Federal Reserve omits, and comprises a much broader cross-section of industry. On the next page the chart the President looked at (without recomputation) shows clearly the four points since 1919 when durable and non-durable production curves have crossed. Those are the points that now have the President worried.

and federal funds. Moreover, the banks have sufficient reserves to meet the boost in reserve requirements on May 1, and would still have an all-over excess of some $500,000,000—sufficient for a credit expansion to business of $2,500,000,000.

Official Reassurance

But the banks were somewhat nervous. They wanted to build up their reserves. So they sold governments. Whereupon major Tragedian Eccles comes to the aid of minor Tragedian Morgenthau with reassurances to the banks. In effect, his lines were these:

"Bankers, you don't have to sell your governments. If credit becomes tight after May 1, or if you have trouble in meeting the requirements of your customers for loan accommodations, the Federal will be in there buying government bonds and pumping you full of reserves. So, desist!"

The government market firmed up on Monday immediately after the announcement. Which may have been slight solace for Mr. Morgenthau.

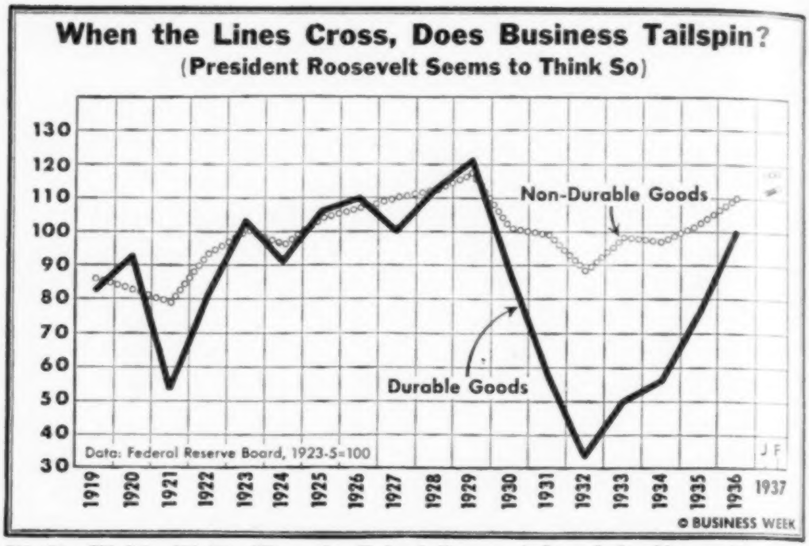
Tragedian Roosevelt also came in for solace on Tuesday. Copper got tired of "climbing up the ever-climbing wave" and dropped back to 16¢ a pound. That was undoubtedly due in part to Mr. Roosevelt's statement that copper and steel were too high, that prices were booming extravagantly, that the government would have to stop putting money into relief projects that boom durable goods industries.

By that declaration, Mr. Roosevelt supplemented the warning of Chairman Eccles who said several weeks ago that prices were rising too rapidly, that it was urgent to stop inflation immediately (*BW—Mar20'37,p13*). To check the incipient boom, Mr. Eccles had a program: to raise taxes in order to balance the budget and retire government debt. In that way, the Reserve chairman would wash down the "means of payment"—bank deposits.

"Danger Signal"

President Roosevelt did not exactly take up where his fellow tragedian left off. He made no avowal of higher taxes, or more taxes. Indeed, the President has hewed firmly to the thesis that higher taxation would be in order only if absolutely exigent. But the President did have his remedy and his warning signal. He noted that durable goods and non-durable goods are coming closer together on the Federal Reserve Board's production index (see chart, page 14). This, to the President, is a danger signal. Because in times past, when durable goods production has crossed non-durable goods output, business has receded shortly thereafter.

The President's statement sent the stock market lower. His assertion that the government would cut down on PWA projects involving durable products (capital goods) affected the heavy industrial shares. Yet, for business as a whole, the near- or far-term consequences are hardly likely to be significant.



IN '19; IN '23; IN '29—When the Federal Reserve index of durable goods output crossed the non-durable goods line, recessions followed. But in 1925 the lines crossed, and only durable goods activity slowed up. And now this year's rapid rise in steel operations has carried the index of heavy production within striking distance of the consumer goods line. That has the President bothered about a general business relapse. But all indexes do not agree with the Federal Reserve's. Indeed, some still show a wide gap between consumer goods and capital goods output (see chart, page 13).

Spending Dilemma

Federal spending, whether on consumers' (direct labor) projects or on capital goods projects, has the same ultimate effect on private industry. As general purchasing power is raised by government expenditures, the demand for goods of all types increases; whereupon business goes in for heavy purchases of capital or durable goods. The railroads are a particular case in point. The demand for freight cars and locomotives has developed solely because the railroads need pulling power and carrying power.

Furthermore, the government has not been a particularly heavy contributor to durable goods output over the last year or so. For example, in 1936, federal construction was only 13.8% of total construction, and this year the weekly average of federal construction is off 28% from the corresponding period of 1936.

To most economists, the President's conclusions—drawn from the Federal Reserve Board's index—were a surprise. That index, though it indicates to some extent the relative movement of durable and non-durable manufacturing operations, hardly epitomizes a true relationship between what's going on in the consumer goods and the capital goods fields (see chart, page 13).

For one thing, the Federal Reserve index excludes construction, does not give much consideration to mining, and places most weight on iron and steel, which admittedly are having an unusual upsurge.

As to the conclusion—that when durable goods pass consumer goods there is a recession—this hardly can be accepted merely on the basis of reasoning from a chart. Other factors come in. For example, after the war, the country was concededly overstocked on capital goods; likewise in 1929. But there is no tangible demonstration that a similar condition exists today—certainly not after the depression years of under-maintenance and under-replacement.

A 40-Hour World?

Delegates of 24 countries, at Washington, debate short week for textile industry.

WASHINGTON (*Business Week Bureau*)—Fruit and flowers were put aside as the textile conferees in Washington this week from 24 countries quickly clamped their teeth on a single bone: the 40-hour week. Labor, management, and governments met for the first time to consider the welfare of a single worldwide industry. It was John Winant's idea, and a good one, say veterans in the lobbies, but the objective is still a forlorn hope, men and nations being what they are.

Last year at Geneva the British, hard-pressed by Japanese competition, refused to consider adoption of the 40-

hour week on the ground that the textile industry comprised not one but several industries about which complete facts were not available. Now, in Washington, as English delegates again take that stand, American labor leads the contention that participating nations have brought their statistics this time and are laying them on the table. This move is calculated to bring England to grips with the issue at the forthcoming International Labor Organization conference in June at Geneva, for which the Washington conference is preparatory.

Japan still contends she has no unemployment problem and doesn't need a 40-hour week. But she will consider an agreement to that effect in return for better quotas for her textile exports to India and elsewhere. But Japanese delegates are slightly handicapped by uncertainty whether their new government will be right or left. Strong possibility that it will be right is little encouragement to the labor delegates.

Essentially the conference is ranged in two factions: the United States, France, and Belgium leading the labor group; Britain and Japan, though irked by sharp differences, reflecting the sentiment of management.

Reserve Insists on Easy Credit

Open market committee's willingness to buy government bonds causes their prices to rise, and reflects Chairman Eccles' monetary philosophy.

GOVERNMENT bond prices have seen bottom; long-term interest rates have stiffened markedly, but the signs now point to cheaper credit rather than dearer in the months to come. For, if interest rates were to go higher, the government's control over the flow of credit and the cost of money would seem to have been pretty close to a total failure.

Washington's intentions in the matter have become increasingly clear over the last fortnight, and this week the Federal Reserve announced that it was prepared to take positive steps in behalf of cheap money. The chronology of translating policy into action runs something like this:

Federal Reserve Chairman Marriner S. Eccles warns that, while the incipient boom must be controlled, long-term credit must remain easy.

The Reserve banks take on $103,000,000 of Treasury bonds in three weeks by the simple process of switching out of short maturities.

The Treasury tries to bolster the toppling government bond market by purchasing an undetermined quantity of bonds for federal investment accounts.

Sec. Henry Morgenthau, Jr., declares that the Treasury and the Federal Reserve have plenty of money to maintain order in the government bond market, though nowhere nearly enough money actually to support prices.

Open Market Policy

The Federal Reserve's open market committee pledges the system to buy enough Treasury bonds to preserve easy money and to tide the member banks over the final boost in reserve requirements May 1.

Until the Federal Reserve reached this decision on open market policy—and it wasn't reached without some turmoil, for the committee was in session all last Saturday and well into Sunday afternoon—government bond prices displayed very little recuperative power. But with this reassurance a fairly impressive rebound developed at once.

The impression in market circles was that bank liquidation had pretty well dried up. Moreover, dealers said the Federal Reserve had not been required to buy many bonds to initiate the improvement.

Reputedly, institutional investors were doing a little bargain hunting, timid though it may have been at the outset. Treasury bonds, down 2 to 6 points from this year's highs, afforded yields as high as 2¾% to 2.9% for the longer maturities. This was in sharp contrast to yields around 2.35% at 1936-37 peak prices; banks and insurance companies were in a position to buy a lot more earning power for their money.

Nevertheless, the factors which made for March's crack in federal bond prices

Wide World

MANY NATIONS, ONE SET OF PROBLEMS—To weigh the economic and social conditions of one of the world's most competitive industries, directly affecting the well-being of over 12,000,000 people, 200 delegates representing 24 nations are gathered in session at Washington for a two-week textile conference convened by the International Labor Organization. In the picture: John G. Winant, former head of the Social Security Board, who was chosen conference chairman; and, in the background, two Japanese delegates listen to speeches interpreted through earphones. In early sessions discussion of the 40-hour week has expressed the conflict of interests and thought-patterns among governments, employers, and labor groups.

may not yet have been entirely washed up. For example, the failure of Mar. 15 income tax receipts to come up to expectations hasn't helped Treasury issues. This revenue deficiency, along with absence of any signs of reduced expenditures, has forced Sec. Morgenthau to plan government borrowing sooner than had been expected.

Moreover, the Federal Reserve Board's latest *Bulletin* points out that some banks—particularly in Chicago and to some extent in New York—are not yet ready to meet the hike on May 1 in the amount of reserves required against deposits. Thus it appears some further liquidation in government bonds may occur.

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Some banks, though, are affected more by the increased reserve requirements than others. In New York, for instance, the First National actually added almost $47,500,000 to its holdings in the first quarter. Among the big banks so far to report Mar. 31 condition, the Bankers Trust is a standout in point of bond sales, having reduced Treasury holdings by nearly $92,000,000.

Strikes and Peace

Chrysler settlement encourages business. Some states act to bar sitdowns.

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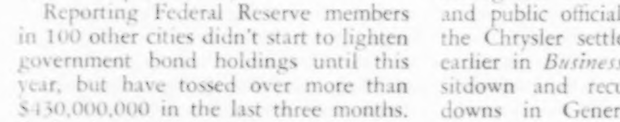

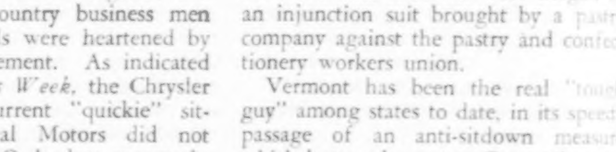

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Wide World

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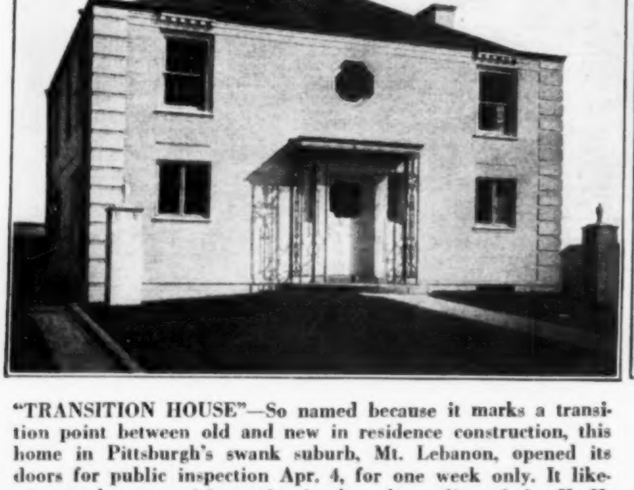

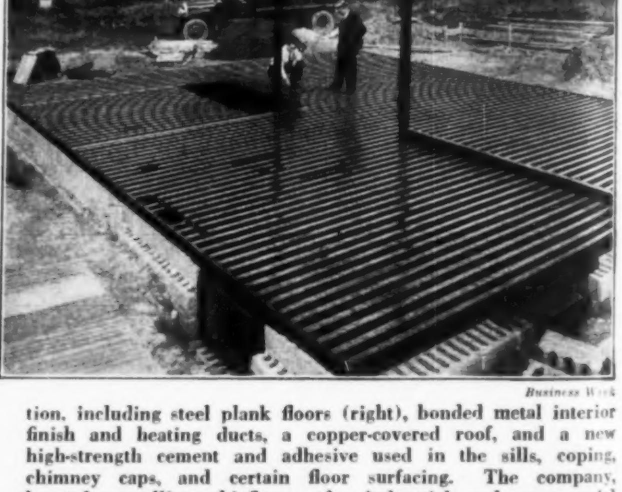

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did in 48. Orders have been placed for multiple-operation equipment, with the machine tool industry again benefiting from a windfall. Buick will double by fall the capacity of its machining lines on the popular 40 job. Pontiac is buying machinery to enlarge its engine capacity and improving its sheet metal plant. G.M. has purchased equipment for Cadillac V-eight manufacture, and Chevrolet has a big buying program.

A story is going the rounds that General Motors has definite plans for entering the smaller diesel engine market in a big way. At present its Winton Engine Division makes large diesels, many of which go into power cars for diesel-electric trains. The new program will result in a special diesel factory in Detroit in which will be built three-, four- and six-cylinder diesel engines for automotive and general use. These newly-designed diesels have been developed in the last year or two in a diesel experimental division of the corporation located in part of Cadillac's Detroit plant. It would not surprise Detroit should General Motors and Chrysler put diesel-engined trucks on the market at about the same time, probably during the '38 season.

C.I.O. Starts Oil Campaign

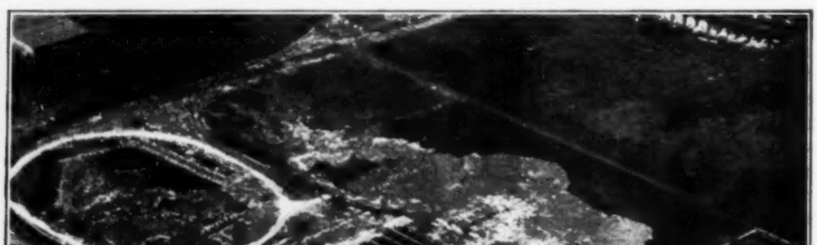
Seeks million members in diversified industry throughout all 48 states. Union will probably plug away for months without a strike.

ONE more big industry underwent formal introduction to America's flourishing organizers of mass labor this week, as the Committee for Industrial Organization set out to unionize Oil. The two parties did not, however, shake hands.

Opening with a mass meeting in Houston, the C.I.O. spoke boldly of its aims: organization of more than a million oil-field workers, collective bargaining for higher wages and shorter hours, installation of its system of labor direction which already has been driven into substantial parts of coal, rubber, steel, and automobile empires. Able field generals were on hand, including Phil Murray, Charles Howard, and Harvey Fremming.

To the more thoughtful element of business observers, the oil campaign wasn't at all like the automobile drive, but did look a lot like the textile labor movement. At least it was directed at a sprawling, widely-diversified industry, with refineries in 27 states, pipe line workers in 30 or more states, sales outlets in all 48 states. And like the textile union, the Oil Field, Gas Well & Refinery Workers could claim only a small fraction of the workers (about 7%) to start with.

From these indices the logical assumption is that the oil organizing campaign will follow a slow-breaking plan of attack, and may last for months before organization in any one spot is sufficient to back up a strike. Sudden paralysis of the industry by a sitdown or two isn't possible. One company at a time may be tied up, if a strategic group (such as pumpers) can be organized and directed to sit down. First company to face demands is Humble, whose company union issued a strong defi to the outside organizers a few days ago.



Aerial Explorations

SPREAD OUT—And that's the G.M. program, too. In line with its decentralization plans is the new plant approaching completion at Linden, N. J., set up to assemble Buick, Oldsmobile, and Pontiac cars, for delivery on the East Coast and overseas.

Good Relations Now

In addition to geographical difficulties, the C.I.O. faces other hindrances to quick and easy success in the oil fields. The operators have been keeping their workmen pretty well contented, and wage increases during the past few months have been general. Standard of New Jersey, Gulf, Standard of California, Pure Oil, Magnolia, and others have increased pay in various divisions. And the larger companies have profit-sharing, stock-purchase, and insurance plans which go far toward welding the employees into satisfied, company-supporting groups. Relations between management and labor always have been harmonious.

When C.I.O. was organized, following the defeat of vertical-union principles at the American Federation of Labor convention in 1935, the oil union was one of its first converts. Relatively young (chartered by A.F.L. in 1918) it was a collection of several local units on Gulf and Pacific coasts, and boasted but little membership. It grew slowly, attained national prominence suddenly under the NRA in 1934 when it negotiated an agreement with three Sinclair companies (Sinclair Refining, Prairie Oil, and Prairie Marketing), and later entered into bargaining arrangements with six Cities Service plants, five Shell plants, two Standard subsidiaries, seven Texas Co. plants, and three Pure Oil plants.

Sinclair's Agreement

Of tnese agreements, the Sinclair plan was most notable, because it was set up on a national basis, not just for a few plants. It provided for strict seniority rights, an 8-hr. day and 40-hr. week, vacation rights even for temporarily laid-off employees, and regulations to keep overtime from making any employee work more than 16 hours in a two-day period.

The union rose to a membership of around 75,000 after these agreements were signed, and is about that large today. Its move to gather in another million workers is an ambitious one.

Not to be overlooked among the items of opposition which confront the C.I.O. organizers, and adding to the reasons for cautious research on their part before they attempt forceful action,

is the undoubtedly individualistic temperament of the oil worker and of the industry itself. Many of the workmen are born wildcatters, preferring to take a chance on beating out the slower-thinking fellow rather than go along with a crowd in search of security and smaller profits.

It's Different in Oil

Public feeling, too, is different in the oil centers. There aren't any 11-year-old girls toiling in the mills, and there isn't so much production-line speedup to excite sympathy for the overworked employee.

The public officials everywhere are leery of C.I.O.—Gov. Allred has spoken vehemently against sitdowns, and other executives are likely to resent stoppages. But sitdowns, as indicated, aren't the menace out in the wide open spaces that they are in close-packed population centers.

One other angle in the situation is keeping everyone guessing—even C.I.O. The A.F.L. is sending organizers into the oil industry, particularly among the gas station operators in Ohio and Pennsylvania. With both big union groups in the field, some operators feel that a net gain will accrue to the open shop; fighting among themselves for the worker's dues, they may scare off some prospects.

Columbia Moves In on Television

Plans $330,000 transmitter on Chrysler building, to rival NBC's on Empire State. Action by leading independent is sign that things may begin to pop.

LONG billed as a coming event, television this week cast before it one of its biggest shadows in the form of an announcement by the Columbia Broadcasting System that it had applied to the Federal Communications Commission for permission to construct atop the Chrysler building in New York a television transmitter that would rank with the 30-kilowatt unit to be installed on the Eiffel Tower in Paris as the world's most powerful television station.

The antenna for the CBS transmitter will be constructed just below the Chrysler tower's steel spike, 971 feet above the ground. This compares with an elevation of 1,248 feet for the transmitter which the National Broadcasting Co. has operated for the past year atop the Empire State building. Since television waves are limited by the horizon, it would appear that the NBC transmitter had a greater range, but Columbia stoutly asserts that its television station will have an effective coverage area approximately 40 miles in radius or roughly equal to that of NBC's.

Dr. Peter C. Goldmark, who heads up Columbia's experimental work with television, explains that "the height of the antenna is not the only thing to be considered," and he points out significantly that the biggest market for television receivers lies to the north of Manhattan's midtown and that the Chrysler tower, unlike the Empire State building, has an absolutely clear field in that direction. Hence the broadcast waves "will not be broken up or refracted by the steel skeletons of other skyscrapers, and therefore a common fault of television—the production of double images—will be avoided."

Began Experiments in '31

Columbia is no newcomer to the field of television. From 1931 until 1933, it operated an experimental station, broadcasting the crude 60-line images that were then in vogue. But recently Columbia has played its cards close to its chin, saying nothing about its interest in the new high-definition television. Unlike its chief competitor in the broadcasting business, CBS has no tieup with any equipment manufacturer; its position is that of the biggest potential customer, and as such it has been under no obligation to conduct active experimental work. The appointment some time ago of Vice-Pres. Paul W. Kesten to keep tab on developments was evidence of Columbia's wish to be ready for action.

By its latest move, however, the chain definitely discards its rôle of interested bystander. The most obvious inference to be drawn from the action is the hint that the day when things will be popping is not so far removed. At least, apparently Columbia thinks so, and realizing that it takes more than a year to build a transmitter, the chain does not intend to delay too long.

No Longer Standing By

CBS is buying its $330,000 transmitter from the Radio Corp. of America, for since the time of the famous trust decision which partitioned up the electrical equipment field, RCA has had a virtual monopoly on the manufacture of such units both for visual and audio broadcasting. In its application to the Federal Communications Commission, Columbia has indicated it would invest another $130,000 in television equipment, but whether it will spend that money at RCA is a matter of considerable trade conjecture. In addition to the transmitter, which is pretty much standard equipment, CBS

will need cameras to convert visual images into the electrical impulses that are fed into the transmitter, and it will need receivers to reverse that process.

RCA makes both sending and receiving apparatus, and this is the equipment which has been used exclusively in the tests conducted by NBC, an RCA subsidiary. Presumably Columbia will be under no such obligation, and that's why the trade is particularly excited about the advent of this first free agent into the field of experimental operation. CBS might, for example, be able to put RCA's iconoscope camera and Philo T. Farnsworth's dissector tube equipment to identical tests that would yield the first comparative data on the operating efficiency of these two principal rival systems.

Farnsworth Has Basic Patents

Thus far, Mr. Farnsworth has kept his entire television system pretty well under wraps, contenting himself with brave assertions that no one else could go into commercial production on television cameras or receivers without being licensed to use some of his basic patents, such as the scanning device. But similarly, anyone who wants to build television equipment will have to pay some royalties to RCA which holds basic patents on all vacuum tubes.

If Farnsworth, for example, were interested in playing ball with Columbia and Columbia were interested in playing ball with him, it would be possible to tell just who had the edge on whom, and once those lines were drawn it might be possible to unsnarl the patent tangle without court action and expedite commercial television.

Philco Also Experimenting

A similar situation exists with receivers. Not only Farnsworth and RCA but half a dozen others—notably including the Philco Radio & Television Corp.—have been experimenting with receivers. In television as in radio it is generally assumed that RCA will control basic patents; but, restive under RCA's radio patent control, Philco has also conducted exhaustive experimentation. (Incidentally, it is also the only American licensee of Farnsworth to date.) Others may be entertaining similar ambitions, but all of them, including Philco, are primarily interested in gearing themselves up so they can tap rapidly the big market for sets, regardless of whom they pay royalties to.

Although Columbia's venture into the field may permit of the testing of various sending and receiving equipment—and there are hints in the trade that such working arrangements are already being negotiated—it is not thought that any alliance of independents could be effected which would leave RCA out of the picture, or would even force its hand.

Motor Trucking—A Half-Billion-Dollar Industry

Motor trucking concerns, numbering 61,216, did more than a half-billion dollars' worth of business in 1935, according to the first census ever taken of these competitors of railroads. They employed 158,283 persons, had a payroll of $179,485,000 (of which the major part represented compensation for full-time employees) and incurred other expenses (not including depreciation) of $243,127,000. Proprietors numbered 59,621. Vehicles operated totaled 188,809.

The first returns of the Motor Trucking for Hire census reveals a number of illuminating facts useful not only to the railroads as competitors, but also to the host of industries which count truck owners as their market for new trucks, trailers, oil, gasoline, and other supplies. The table and charts adjoining indicate the tremendous concentration of concerns, vehicles, and revenue in the handful of states in the Middle Atlantic and East North Central states. These two regions had 37% of all the trucking companies, operated 45% of all trucks, and collected 48% of all revenues. Important states outside of this area include California, Massachusetts, and Missouri.

Important also is the revelation that the bulk of these trucking concerns (74.6%) are engaged primarily in local transfer, delivery, and cartage operations and therefore constituted no challenge to the railroads. Another 16.7% operated primarily within the confines of the states where their headquarters were established, while only 8.7% were engaged in interstate traffic. However, the 5,314 concerns whose business cut across state lines garnered 37% of the revenue, while the 45,685 concerns handling local business received 38%.

The relative importance of interstate and intrastate trucking varies with the geographical area. In the South Atlantic states, for instance, where there are a cluster of small states grouped together, interstate business accounts for 54% of all the traffic. On the Pacific Coast, however, where the large cities are some distance from state borders, intrastate traffic dominates the scene.

Not only is the trucking business concentrated geographically, it is also concentrated in the hands of the larger concerns. The small table attached indicates the extent of this concentration. Out of the 61,216 companies in operation, 49,560 did less than $5,000 worth of business in the year; on the other end of the line, 96 concerns doing a half-million dollars' worth of business apiece took in 16% of all the revenue.

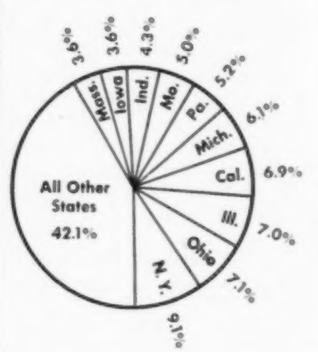
A final report due in May will further amplify the trucking data.

Where, How Many, How Much

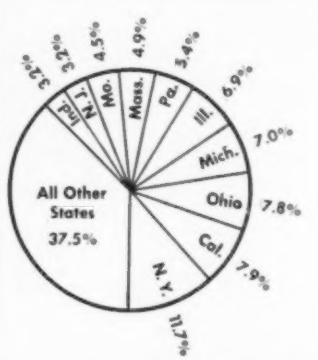
States by Regional Groups	*Number of Concerns*	*Number of Vehicles*	*Revenue (Millions)*
New England.....	**3,904**	**12,578**	**$44.7**
Maine	459	1,004	2.4
New Hampshire..	385	715	1.5
Vermont	673	1,152	2.3
Massachusetts	1,738	6,715	25.8
Rhode Island.....	110	773	2.5
Connecticut	539	2,219	10.2
Middle Atlantic...	**8,644**	**32,179**	**107.8**
New York	4,731	17,123	61.9
New Jersey	1,337	5,277	17.3
Pennsylvania	2,576	9,779	28.6
East North Central	**14,072**	**52,613**	**147.8**
Ohio	3,059	13,411	41.2
Indiana	3,934	8,180	17.1
Illinois	3,142	13,260	36.8
Michigan	1,230	11,503	37.3
Wisconsin	2,707	6,259	15.4
West North Central	**14,471**	**30,468**	**65.6**
Minnesota	2,978	5,834	12.8
Iowa	4,361	6,811	12.1
Missouri	2,756	9,461	23.9
North Dakota ...	459	718	1.3
South Dakota ...	698	1,170	2.3
Nebraska	2,140	4,079	7.7
Kansas	1,079	2,395	5.5
South Atlantic....	**5,216**	**14,854**	**38.3**
Delaware	424	615	1.1
Maryland	613	2,890	8.5
Dist. of Columbia	56	563	1.4
Virginia	928	2,522	6.9
West Virginia ...	948	1,868	4.0
North Carolina...	710	2,295	7.0
South Carolina...	374	1,085	2.4
Georgia	886	1,820	3.5
Florida	277	1,196	3.5
East South Central	**6,316**	**11,382**	**23.3**
Kentucky	2,680	4,661	9.5
Tennessee	1,674	3,269	8.6
Alabama	799	1,650	3.1
Mississippi	1,163	1,802	2.1
West South Central	**3,225**	**11,169**	**28.0**
Arkansas	606	1,355	2.4
Louisiana	516	1,882	3.6
Oklahoma	641	2,539	6.4
Texas	1,462	5,393	15.6
Mountain	**2,439**	**5,881**	**16.6**
Montana	352	860	2.4
Idaho	509	1,044	2.7
Wyoming	390	742	1.6
Colorado	490	1,430	4.3
New Mexico	64	339	1.2
Arizona	103	509	1.7
Utah	444	777	2.2
Nevada	87	180	.5
Pacific	**2,929**	**17,685**	**58.7**
Washington	795	2,902	9.8
Oregon	345	1,785	7.1
California	1,789	12,998	41.8
UNITED STATES	**61,216**	**188,809**	**$530.9**

Data: U. S. Census of Motor Trucking for Hire, 1935.

These 10 States Operated 58% of All Trucks



These 10 States Received 63% of All Revenues



Most Truckers Are Small —But Big Ones Got Bulk of the Business

Percentage distribution of truckers by size in 1935

Revenue Size Group	*No. of Concerns*	*No. of Vehicles*	*Revenue*
Under $1,000......	31.9	11.1	2.0
1,000- 1,999 ...	27.4	10.6	4.4
2,000- 4,999	21.7	12.0	7.5
5,000- 9,999 ...	7.3	7.2	5.8
10,000- 24,999 ...	5.8	10.5	10.4
25,000- 49,999 ...	2.7	9.0	10.9
50,000- 99,999 ...	1.7	10.1	13.2
100,000-249,999	1.0	12.0	18.1
250,000-499,999	0.3	7.6	11.6
500,000 and over..	0.2	9.9	16.1

Data: U. S. Census of Motor Trucking for Hire, 1935.

Free to the Rich

***Scribner's* will start giving away 50,000 copies to families in top income class.**

WHEN a magazine is peddled from door to door by bright-eyed boys who want to win baseball uniforms or when it is sold by members of the ladies' aid society to help the heathen Chinee, advertisers say that the magazine's circulation is forced, and they don't like it. They reason that if people won't buy a publication without being coaxed they won't read the book or the advertising in it.

Familiar "Give-Aways"

Paradoxically, however, advertisers have no serious objection to a magazine that is given away completely free of charge—not, at least, when it is given away to the right kind of people.

A quarter of a century's experience with controlled circulation has virtually dissipated objection to the free sheets, provided they have a *bona fide* reason for existence, and no advertiser today disparagingly refers to *Oral Hygiene, Drug Topics, Motor Service*, or *Medical Economics* as "give-aways." He recognizes that they represent economical media for reaching dentists, druggists, garage owners, and doctors respectively, and the work of checking their distribution, accomplished in the past six years by Controlled Circulation Audit, has heightened confidence in such papers. Even publications which lack a specific trade or professional identity and are designed just for run-of-the-mill readers have won a place in the sun. *The Family Circle*, distributed right at the point of sale in various retail grocery outlets, is a case in point.

Veteran Falls into Line

Not until now, however, has any established magazine in the "general" classification been tempted to experiment with controlled circulation, either as a supplement to or a substitute for its paid circulation. This week a 50-year-old patriarch pioneered the way when *Scribner's*, revamped and revitalized editorially, announced that beginning with its June issue it would distribute by Western Union messengers 50,000 copies of its publication to top-income families. The magazine will be sent free for three months to the first group and then every quarter a fresh 50,000 will be picked.

One obvious inference of the announcement was that *Scribner's* was finding it tough going, what with the competition of *Readers Digest* and *Fortune* as well as that of its more venerable competitors—*Atlantic Monthly, Harper's*, and *Forum*.

But the obvious led direct to error,

as advertising men who looked up the records readily discovered. *Scribner's* six-month average for total net paid circulation as of the middle of last year was only about 47,000. At the end of December it had practically doubled, and since the beginning of the year the magazine has been guaranteeing 100,000 paid. Advertising volume has taken an encouraging if not so dramatic a turn upward.

Aiming High

Scribner's explains that the new "selective distribution" policy is simply a logical corollary of its "selective publishing" thesis, devised by Harlan Stone, *Scribner's* new editor-publisher. This involves putting out a magazine which both in editorial content and general format is designed to appeal specifically to families of more than $10,000 income. By adopting the selective distribution policy as a supplement to its paid circulation, *Scribner's* intends to reach a greater proportion of that quality market than either it or any other publication now taps. (A recent survey showed that no more than 23.8% of the $10,000-and-plus families read any single publication.)

The fact that newsstand sales are up 1226% in the past five months (indicating a *bona fide* demand for the publication) and that trial distribution on a free basis worked out highly satisfactorily lends *Scribner's* hope that it will be read once it hits the 50,000 new residences, that advertisers will consequently be convinced of the wisdom of the controlled circulation technique. And other publishers will be as interested as *Scribner's* in the proof of that pudding.

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Cleveland Up at Bat Again

CLEVELAND prepares for a grand reopening of her Great Lakes Exposition on May 29. Chicago's repeat exposition proved successful; Cleveland's 1936 fling paid for the plant and, together with concurrent conventions, swelled local bank clearances by $250,000,000. Cleveland never has believed in Chicago's getting too far ahead of her. Though the official theme for the 1937 edition will be the "Making of a Nation," great stress will be laid on the amusement end, as witness current ballyhoo on Billy Rose's combined musical, marine, and girl extravaganza, "Aquacade." Features popular with last year's 4,000,000 visitors are being enlarged. Florida National Exhibits, Inc., having noted a 40% increase in Ohio-to-Florida travel during the winter just past, tacitly recognizes the promotion value of Great Lakes Exposition by doubling its last year's contract for space.

Scrap-Pig Scrap

Dealers in scrap iron aren't worried over proposals to cut exports; they claim steel companies are just sore because they can't use pig iron as a price weapon.

SCRAP iron interests are highly amused at the storm in Washington over the export situation. Senator Schwellenbach, of Washington, has introduced a bill that would put steel and iron scrap under control through export quotas (as is done with scrap tin). Senator Guffey "is considering" a similar proposal. The Independent Steel and Iron Producers Committee on Scrap views with alarm and discusses means for plugging the outflow.

The committee declares that export has dislocated the normal balance between prices of scrap and pig. It says that war demands are raising prices, thereby forcing the American public to pay "part of the cost of world rearmament." The American Iron and Steel Institute is taking no part in the argument. It is dominated largely by the big integrated companies which have their own supplies of ore and pig iron to fall back on. However, they have a sentimental interest in any move that might depress prices of an important raw material.

If the scrap iron boys were addicted to mild language their reply to all this would be a resounding, "Pooh!"

Retort Discourteous

The attitude of their industry is somewhat as follows: "Attempts to place the rearmament stigma on scrap is nonsense. Exports of pig iron and steel are increasing greatly while scrap exports are running about the same as last year. This pig iron and steel is going into war goods too. If the federal government is going to be humane and cut down scrap exports, it will have to regulate pig iron and steel to be consistent. Comparison with tin is not valid; all our tin is imported but we are the world's greatest producer of scrap iron and steel."

Exports of scrap have had a dizzy rise; 98,298 tons in 1923, around 2,000,000 tons for each of the past three years. From 1934 to 1936 Japan took 3,343,828 tons, Italy 896,899, United Kingdom 781,581. Since the first of the year pig iron has zoomed spectacularly. Exports during January and February totaled 30,440 tons against 237 for those months of 1936. The figure for March is said to be something extra fancy. Scrap exports for the first two months were 224,120 tons, against 303,964 for 1936.

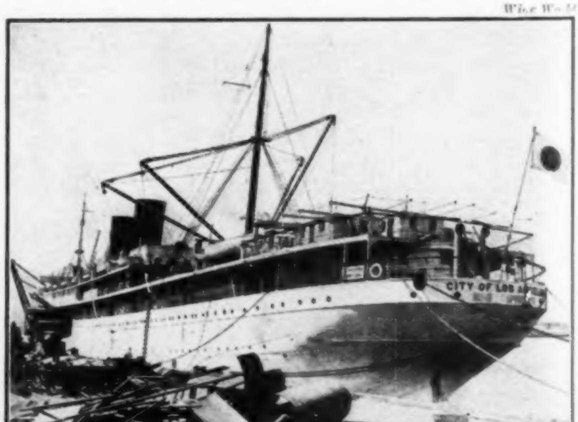
Say Steel Was Caught Short

The steel industry recently treated itself to a nice rise in prices. Mr. Roosevelt doubted publicly that labor was receiving its proportionate share of profits. Scrap iron interests wonder if that protesting group of steel companies hasn't been guilty of bad timing in complaining about prices on scrap. They claim that the steel makers were caught short on supplies by a sudden rise in domestic demand superimposed on heavy war schedules.

Usual practice is for steel companies to play scrap against pig. If scrap prices go up, the melt will be 40% scrap and 60% pig iron. When scrap goes down the proportion may be 60% scrap and 40% pig. Also the big companies would soften scrap prices by staying out of the market. The present trouble is a demand so high that both prices have gone up. Recent Pittsburgh quotations showed scrap (heavy melting) at $23.25 a ton, pig iron at $25.26.

This is a 14-year high for scrap. While happily booking orders, the

Wide World



SCRAP-CARRIER TO BE SCRAPPED — Loaded with scrap iron at San Pedro, Calif., and destined to be scrapped for salvage on arrival at Osaka, the *City of Los Angeles* recently set out on her last voyage after an adventurous career. Seized from Germany during the war, then rebuilt as an American liner, she was a short time ago sold to Japan.

United States Steel Exports
Gross Tons

	Iron and Steel Scrap	*Finished Steel Products*
1929	557,044	2,452,282
1930	358,649	1,620,717
1931	136,125	848,690
1932	227,522	378,415
1933	773,406	582,950
1934	1,835,170	996,911
1935	2,107,313	982,909
1936	1,941,031	1,221,663

scrap iron boys deny that there is a famine. They say prices already have eased somewhat. They point to 500,000 tons at Duluth waiting for the opening of lake traffic to allow transportation to the mills. Spring weather will permit greater supplies of ore to move to blast furnaces. Warmer weather also will bring out heavier offerings of scrap of which "the supply is practically limitless."

During the depression the scrap iron industry intensively promoted foreign sales. Many companies claim that Japanese demand saved their hides when the domestic market went flat on its back. It is estimated by the deplorers that one ton of scrap is equal to five tons of raw materials (ore, coal, limestone). Thus exports of 2,000,000 tons of scrap means expatriation of 10,000,000 tons of irreplaceable resources. But scrap dealers claim they have the answer to that one too:

It is said that there are 1,000,000,000 tons of steel in use in the United States. This is the reservoir from which scrap steel is taken, to which replacements are added. Last year about 30,000,000 tons were taken out. But steel production last year was 50,000,000 tons so that there was an addition to the reserve.

Working the Dumps

There is an additional source. The dumps and discards of various areas. As scrap prices rise it becomes profitable to work deposits that have been previously ignored. That is what is happening now. A scrap dealer bought the right to recover dumpings from the Flushing Flats where New York's World Fair will be erected. He took out 2,000 tons of metal. Now 150,000 peddlers are patrolling the countryside, some with dreamy old horses and tinkling bells, others with modern trucks, buying all the iron and steel they can find. A price of over 1¢ a pound in Pittsburgh is the strongest possible stimulant.

There was a time when peddlers were the backbone of the industry. But in 1908 the open hearth plant capacity passed that of the bessemer process.

Now open hearth capacity is about 92% and bessemer 8%. The open hearth makes it more profitable to use scrap than pig iron. Development of the scrap industry followed the shift.

The most valuable grade of scrap is heavy stuff which the little fellows can't handle. It includes heavy machinery, ships, abandoned railroad lines, locomotives, bridges, building beams, automobiles, etc. There are about 1,000 yards in the country which are equipped to do such work. Cost for processing the material (cutting into proper shapes and weights) is about $3.50 a ton.

Boulder Dam to Osaka

A dramatic example was the announcement on Apr. 1 that Japan had bought from big dealers machinery and steel used in the construction of Boulder Dam. Sales of 4,000 tons of similar equipment from other western power projects have been reported. On Mar. 31 the old steamer *City of Los Angeles* left the West Coast for Osaka with 6,000 tons of scrap. On arrival, the boat will be broken up and tossed into the pot with its cargo.

It is pointed out that the present high scrap prices are a great help to the heavy machine trades since company heads will be encouraged to sell old equipment and buy new installations. It is also pointed out that no matter what happens to scrap prices, the roaring demand for finished goods will enable steel companies to pass along costs.

Anklets Are In

First no garters, then almost no socks. That's what men are coming down to.

"SLOPPY Joe," that fellow who couldn't get a job, or a girl, because those long and wrinkly, garterless socks kept falling over his shoe-tops, will get a break at last. Short socks—or anklets—are a big item in hosiery plans.

It all started with gym socks, says Col. H. W. Scruton of Interwoven Stocking Co., writing in *Textile World*. That kind of hosiery reached just above the ankle, not halfway to the knee, and although they sagged a bit it didn't make much difference. In 1935 some manufacturers tried out the short hose for general wear, and it went over.

Practically all of the 1935 anklets had a few rounds of Lastex at the top, to keep them snug. They came in 10- and 8-in. lengths, but the shorter easily bested the longer in popularity.

Interwoven, for one, put 123 different styles of fancy, light-weight anklets on the market, and by 1936 they had 211 styles. Now hosiery makers are all set with dozens of new styles, in trim, neat hose with close-fitting tops. The anklet, all agree, is here to stay.

They're Insuring Crops in Kansas

New mutual casualty company in Topeka insures cost of production for wheat growers. Unlike the government's plan, it is on an all-cash basis.

WHEAT farmers out in Kansas are already buying crop insurance—not the proposed government variety but another kind which the Department of Agriculture considered a few months ago and rejected. Last week the newly formed Sowers Plan Crop Insurance Co., Topeka, announced it had completed its agency set-up and had deposited $50,000 with the state insurance commissioner, who granted permission to sell what is probably the first crop insurance with both premiums and estimated losses based on actuarial data.

How It Differs

The Sowers plan—a copyrighted idea—differs from the proposed government crop insurance in several ways. The former definitely insures cost of production regardless of yield or market price of the grain at harvest time. The government contract, on the other hand, proposes to guarantee the farmer a normal yield through a plan of storing surplus grain and redistributing it in years of subnormal crops; premiums and benefits to be paid in grain. The Sowers plan is a cash proposition.

Dollar wheat is one reason for private capital going into a field of insurance which has always been shunned by the large casualty companies. Probably the most logical reason for crop insurance at this time is the complete actuarial records assembled by the Agricultural Adjustment Administration, on performance of four million corn and wheat farmers over a six-year period—invaluable data which has never before been available to insurance people.

In making up a rate schedule for wheat crops the (1) income per acre (by counties) is taken as a starting point, then (2) number of acres sown, and (3) harvested, (4) price received per bushel, and (5) percentage of abandonment.

The all-risk insurance offered by the Sowers firm reimburses the assured for damage from any natural cause including drouth, blowout, hail, flood, fire, insects, crinkle-joint, tornadoes, and winterkill. They will be protected to the full extent of their investment based on cost of production which includes taxes, labor, rent, seed, and operating expenses for equipment used.

In order to buy this type of crop insurance the grower is required to submit through the local agent a statement of his total production costs which, if they are within the limits of good farming as set by the state department of agriculture, are accepted, and a policy is issued for that amount. Average cost of production in Kansas is about $6 per acre.

Premiums Vary With Location

The premium varies according to the location of the farm. Farmers in the eastern part of Kansas are being quoted a rate of $5 per $100 insurance while those in the Dust Bowl, in the southwestern corner of the state, will be able to buy insurance for $16 per hundred. The average rate for the state is $10. If the price at which the grower sells his crop does not amount to the face value of the policy, he collects the balance in cash. Only a limited amount of insurance will be sold in each county, and very little is being allotted to the Dust Bowl.

It is significant that one-half of the

Wide World

RUM-MAKER—Prohibition hurt the Virgin Islands, but the operations of the Virgin Islands Co., a rum plant of the United States government, of which Gov. Lawrence Cramer is a director, may make up for lost money to the islanders. The plant is set to work three eight-hour shifts daily and manufacture 10,000 gallons of rum a week.

two hundred local agencies selling Sowers plan insurance are located in small-town banks. Wheat farming is about the most hazardous form of agriculture—it's a one-crop proposition with no chance of rotation or diversification. And that makes the banking business in the wheat country a more or less hazardous venture. No wonder the banker welcomes crop insurance as a new type of security for crop loans, nor is the banker opposed to collecting a brokerage fee on the transaction. Throughout the farm country, banks in the small towns usually write all forms of property insurance, much to the disgust of the exclusive-insurance agencies.

Sowers is a mutual company. Its incorporators and officers are either bankers, insurance executives, or large-scale farmers. The firm plans to open up offices in other states, particularly in the South, where cotton crop insurance will be written as soon as actuarial data are available. Insurance will only be written on cash crops; that excludes corn.

Others Expected

With all the old AAA crop data at hand, and with a continuance of high prices for grains and other crops, observers would not be surprised to see quite a few small insurance firms starting up just to write crop insurance. The only thing considered objectionable in such companies is the possibility of their following an in-and-out policy. One good year and they would clean up. But they might dissolve if wheat dropped to 50¢ again.

Crop insurance is not entirely new to Kansas though to date no company has been successful in writing all-risk contracts. Two companies have previously attempted it, without much actuarial data to go on, but neither lasted long. One was undercapitalized and couldn't weather adverse crop yields in its first year. The other failed because of alleged mismanagement of its investments.

Crop Prospects Good

Present prospects indicate the best wheat crop for Kansas (where one-third the nation's wheat is grown) in six years. Already there is much concern over the possibility of a shortage of harvesting machinery and it may be necessary to import combines into the wheat belt next July. Poor prices and small crops have tended to discourage purchases of both new equipment and repairs for old machines. If crop conditions continue favorable, there will be an unprecedented last-minute rush for machines which dealers cannot hope to meet. Many of the new machines which were purchased during the last few years have been turned back.

Who Needs Labor?

Some industries report shortage, others not. 84% of big companies train apprentices.

BUSINESS associations and statistical agencies have been acutely interested for some time in getting the right answer to the question: "Is there an appreciable shortage of skilled labor?" This week they had several reports to study, with more yet to come, and the consensus apparently was that the shortage can be measured.

To the individual business man, however, present measurements are of little help, unless he operates in one of the fields subjected to specific analysis. Metal working industries have been pretty thoroughly scrutinized; the National Industrial Conference Board recently reported that skilled metal workers were most scarce, in its survey of some 400 plants, and *American Machinist* reports six jobs available for every five skilled toolmakers. In other fields, statistical data are meager, and accurate information must await more exact census-taking.

Surveys Under Way

Nearing completion is a study by *Factory Management and Maintenance*, which is looking into many industries other than metal working, and preliminary diagnosis indicates that the shortage of skilled help varies widely, being almost non-existent in some industries. Like that by *Machinist*, the *Factory* survey was made through questionnaires.

Closely allied to the problem of building skilled labor reservoirs, as shown in the trade journal reports, is the maintenance of apprentice training systems. And in this regard, the industrial record is one of rapid expansion. Whereas a survey by *Business Week* in the latter part of 1935 showed many companies getting along without such systems, about 84% of the big companies are actively building skilled labor by careful training of new employees.

Diagonal Roads

Straight line's shortest distance between 2 points, and new roads will follow it.

STATE by state, the highway builders are working on programs which look much further into the future than the original hard-road plans did. Engineers have told the legislatures that the present highways are quite inadequate (*BW—Mar6'37,p30*) and the appropriations are beginning to be made. But the job has just begun.

Indicative of the way road-builders

are thinking is the report from the Middle West that "diagonal" highways are getting serious consideration. Diagonal roads are those which don't have to follow the checkerboard squares of the present systems, and which can cut straight across the land. If and when the new plans are put into effect, the engineers point out, we will at last be justified in taking some pride in our highways—not till then.

Some idea of the money needed may be had from study of one state's problems. New York's legislature has just heard the recommendations of Col. F. S. Greene, superintendent of public works, which call for a 13-year building program, costing $300,000,000. Present main roads would be straightened, widened, and generally improved so that by 1950 they would be "superhighways." They would be from 4 to 8 lanes wide, and would carry express traffic generally, local travel being taken care of by lesser roads.

Lime Putty Boosters

Leading Eastern manufacturers organize to market their product on a large scale.

LIME putty is the gooey mass of slaked lime which the plasterer makes in a wooden box at the front of the new house. But a group of industrial executives believe that that is no way to slake lime. They met in Washington last week to promote the case of lime putty as an industrial commodity made on a large scale, like ready-mixed concrete.

The result of the meeting was the formation of a temporary organization, headed by a group of temporary officers with Irving Warner, Warner Co., Philadelphia, as president; E. F. Simpson, Super Concrete Corp., Washington, and Durando Miller, Colonial Sand and Stone Co., New York, as vice-presidents; and Hayden Brooks, the Brooks-Taylor Co., Birmingham, Ala., as secretary.

The major objectives are aggressive cooperation in the merchandising of lime putty made industrially instead of by old-fashioned hand methods on the job under plasterer control. Intensive competition with portland cement plasters and other competitive wall-finishing and construction materials is contemplated. Since there is no inter-city competition in this effort, complete exchange of technical and trade information is expected. The membership, consisting initially of about a dozen important companies in a like number of Eastern municipal centers, will continue cooperation with National Lime Association, because lime putty is just one of the specialties of that large industry.

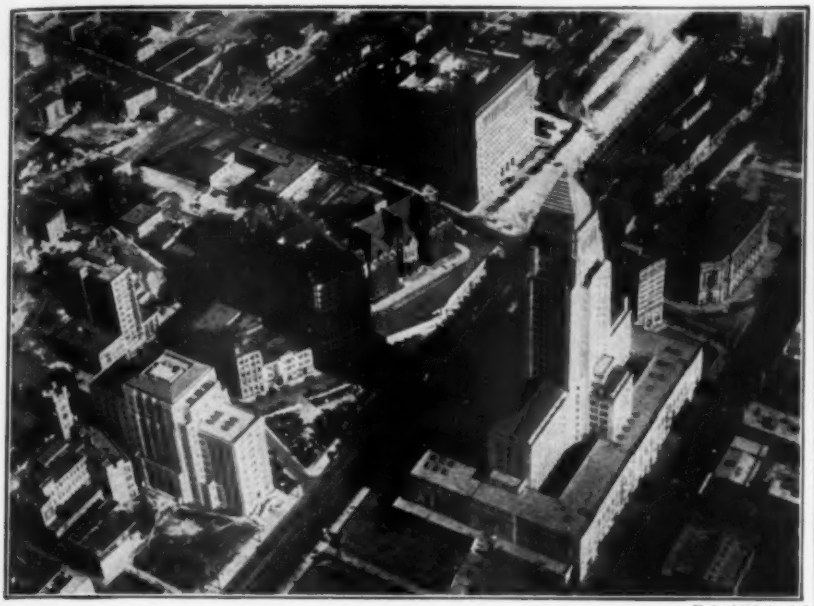
Where Refrigerators Were Sold

(How the states shared in sales of household electric refrigerators in 1936)

States by Regional Groups	*Electric Refrigerators (Number)*	*% Change 1936 vs 1935*
New England	***145,991***	***+25***
Maine	7,466	− 6
New Hampshire	6,616	+14
Vermont	4,583	+29
Massachusetts	81,538	+22
Rhode Island	10,569	+29
Connecticut	35,219	+42
Middle Atlantic	***523,310***	***+32***
New York	244,315	+24
New Jersey	89,886	+28
Pennsylvania	189,109	+46
East North Central	***489,990***	***+38***
Ohio	136,940	+38
Indiana	58,578	+45
Illinois	152,337	+29
Michigan	106,677	+53
Wisconsin	35,458	+32
West North Central	***175,565***	***+22***
Minnesota	29,315	+28
Iowa	30,286	+19
Missouri	64,905	+34
North Dakota	3,403	−19
South Dakota	5,253	− 2
Nebraska	18,219	+ 4
Kansas	24,184	+20
South Atlantic	***225,403***	***+27***
Delaware	3,965	+14
Maryland	23,284	+ 2
Dist. of Columbia	19,622	+59
Virginia	32,351	+37
West Virginia	25,018	+51
North Carolina	37,612	+41
South Carolina	18,334	+35
Georgia	34,072	+15
Florida	31,145	+ 9
East South Central	***94,581***	***+23***
Kentucky	27,714	+49
Tennessee	32,018	+22
Alabama	23,460	− 4
Mississippi	11,389	+54
West South Central	***136,411***	***+24***
Arkansas	11,907	+15
Louisiana	20,607	+31
Oklahoma	20,809	+16
Texas	83,088	+25
Mountain	***62,345***	***+30***
Montana	9,207	+40
Idaho	9,607	+31
Wyoming	3,252	+29
Colorado	15,389	+23
New Mexico	3,959	+15
Arizona	6,236	+ 6
Utah	11,967	+57
Nevada	2,728	+35
Pacific	***225,939***	***+37***
Washington	34,448	+48
Oregon	22,691	+47
California	168,800	+34
UNITED STATES	***2,079,535***	***+31***

Data: Edison Electric Institute
American Washing Machine Manufacturers Association

Business Week



Fairchild Aerial

LABOR STRIFE THREATENS LOS ANGELES—With employers determined to "save the open shop for Los Angeles" and with labor organizers sure that conditions are ripe for the closed shop, there's thunder over the city.

Big Labor Drive in Los Angeles

Business defends open shop, knowing that higher labor costs would mean loss of city's special advantages. A.F.L. and C.I.O. claim large gains.

THE famous Los Angeles atmosphere, only recently cleared of the smoke from thousands of smudge pots working overtime in the citrus groves to prevent the havoc of frost, is filled these days with another kind of smoke, that which comes from the early stages of a battle on a wide front between organized labor and the city's employers, a battle which most observers believe will determine whether the traditional open shop, so effectively used by the Chamber of Commerce in attracting new industries, is to remain.

Labor Prophesies

Local American Federation of Labor officials hope to multiply their membership by three during the next three years. Committee for Industrial Organization spokesmen, more rash in their claims, say they'll "completely unionize the city within nine months."

On the other side, the employers have organized in battle formation. They believe that, so far, they "have the situation well in hand."

A vivid example of what employers' tactics will be when occasion demands was given in the quick and decisive handling of the Douglas Aircraft sit-down strike (admitted by most Coast union leaders to have provided a severe setback to organized labor's objectives in southern California).

One fact employers are pretty well agreed on. Labor costs in the city are rising and the trend will continue.

The impending struggle is important nationally not only because Los Angeles is the fourth largest city and famous as "the citadel of the open shop," but because any increase in labor costs directly affects the large group of Eastern and Midwestern concerns who have established branch plants in the area (*BW—May23'36, p26*), many of them on account of the open shop factor. San Francisco, Oakland, Seattle, Portland, competing with Los Angeles for new industries and branch plants, have lost many a prospect to the southern California city because of "favorable labor conditions." Any threat to the open shop in Los Angeles, or an increase in the cost of labor there, places these communities in an improved competitive position.

Best Chance Since 1910

Impartial observers agree that organized labor has the best chance to make progress in Los Angeles since the era immediately preceding the dynamiting of the Times building in October, 1910, an event which gave the unions a setback from which they have been trying to recover ever since, and which led to formation of the powerful Merchants & Manufacturers

Association, prime factor (with the Chamber of Commerce) in maintaining the open shop and focal point of employer resistance to the present unionization campaign.

There are about 4,000 sizable enterprises in the city. They employ some 100,000 workers who are prospects for union membership. Total annual payroll runs around $90,000,000 and the value of products manufactured is $700,000,000. Including workers in smaller enterprises and taking in the whole Los Angeles area, union prospects probably total close to 600,000.

200 Organizers Busy

Local general staff for the A.F.L. unions is the Central Labor Council headed by the veteran secretary, J. W. Buzzell. There are said to be more than 200 organizers, business agents, and office workers now engaged in the campaign. Each of the 137 affiliated groups maintains one or more agents and the teamsters alone claim to have more than 25 organizers. In and out of the city from time to time flash such Coast labor figures as Dave Beck and Mayor John Dore, both of Seattle and both famous in the *Post-Intelligencer* siege of last summer. Their function is to give counsel and confer with union officials on the finer points of strategy. The council's headquarters hums with activity. A sizable stream of workers shows up daily "to join the union" voluntarily. Right now, according to the council's weekly newspaper, the *Los Angeles Citizen*, membership in the 137 units is increasing at the rate of 1,000 a week.

The council says that four years ago affiliated unions had about 30,000 members as compared with 75,000 today. This membership is based on a total of 600,000 workers in the Los Angeles area.

Have Long-Range Plan

A.F.L. efforts cover nearly all labor classifications in the city. The council's officials claim constant progress in all fields, but especially in oil, aircraft, rubber, automobile assembly, furniture, wearing apparel, printing, meat packing, foundries and machine shops, and the building trades. Accounts of picketing, formerly unheard of in the City of the Angels, are now daily fare for newspaper readers.

The present trend toward organization began in 1934 at the harbor with the maritime strike and it has since spread inland. That's why the teamsters' union has been somewhat successful in signing up a large proportion of the truck drivers. The Labor Council claims 99% sign-up. Employers dispute this, but the percentage is high enough in this key group to constitute potential dynamite if the unionization program should progress to the point of a showdown. In the building trades, A.F.L. unions claim to have tripled their membership since 193[illegible].

A novel feature is the attempt to organize retail salesmen in department and chain stores, automobile houses, and similar enterprises. The unions' initial attempt at this was successful, decidedly to the surprise of all concerned including the unions themselves. Employees of the C. H. Baker Shoe Co., a seven-store chain, who had signed with the Retail Clerks' International Protective Association, struck in a body Mar. 22 and finally negotiated an agreement with the company. Several other smaller shoe stores quickly followed. Thus encouraged, the unions are trying to bore into the department stores and among the automobile salesmen. So far there is considerable smoke but not much fire in either field.

Driving at Plane Factories

Another highspot is the aircraft industry. Despite the Douglas fiasco, A.F.L. organizers are making some progress, especially in San Diego, where they claim a 50% sign-up at the Consolidated Aircraft Co., and in Burbank, at the Lockheed plant, where they claim an enrollment of 1,600.

Complicating the situation for both the unions and employers is the A.F.L. vs. C.I.O. dispute which is as hot in Los Angeles as elsewhere. Some observers believe C.I.O. activity is forcing a more favorable attitude toward the A.F.L. on the part of employers as the lesser of two evils.

Apparently unmoved by his Douglas Aircraft experience, William Busick heads the C.I.O.'s Committee of Nine, corresponding to the A.F.L. Central Labor Council, formed to organize basic industries. While not so extensively staffed as the A.F.L., the C.I.O. is carrying on with similar intensity, especially in a few important fields such as oil, aircraft, steel, tires, automobile assembly, and the metal trades. In addition, major efforts are under way among retail salesmen, truckers, carpet and linoleum layers, and in the cleaning and dyeing industry.

How Far Invaded?

Impartial observers believe that the city's principal industries have been penetrated about as follows: truck drivers, 51% at the harbor, 20% elsewhere; rubber, 10% (chiefly C.I.O.); automobile assembly, 10%; steel (C.I.O.) 10%; oil field and refinery workers, 25% (an intensive campaign by C.I.O. in this industry gets under way about the middle of April); service stations, 10%; men's clothing (in the big shops), 90%; women's clothing, 90%; millinery, 50%; printing and publishing, 10%; musicians, 100%; cooks and waiters, 50%;

structural steel workers, 90%; electrical workers, 90%; plasterers, 50%; lumber trades (mills, furniture plants, cabinet shops), 50%.

In the motion picture industry, the cameramen, sound technicians, stage hands, and electrical workers are predominantly union. Otherwise the business is decidedly open shop.

Employers' Groups

The Merchants & Manufacturers Association, known as the M. & M., has been reorganized for a campaign to "save the open shop for Los Angeles." Employers have been organized into groups with a labor relations committee for each. A strong effort is being made to discover and eliminate labor "sore spots." Wage scales are being revised wherever practical.

There's one threat that employers can't combat. A large slice of industry in the city is controlled from the East. In many cases, as Eastern headquarters make peace with the A.F. L. or C.I.O., they'll make agreements covering their Los Angeles plants, and the percentage of unionization will rise that much higher.

Employers are leaning heavily on two factors: (1) Los Angeles workers don't stay put. (2) There are a large number of small enterprises in the city's business structure, and it's hard to organize small groups of employees who have hourly or daily contact with their employers' problems.

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U. S. All Fixed for Glass

ARMY-NAVY Munitions Board lists optical glass as one of the 23 materials vital to welfare in event of war. Comforting, therefore, to Army, Navy, and all war prophets, plus all business using optical glass, is a Bausch & Lomb Optical Co. pronouncement that "the United States is now free of foreign sources of raw materials for the production of glass."

In addition to continuous optical glass research, Bausch & Lomb has been cooperating with Fairchild Aerial Camera Corp. in developing lenses for mapping cameras. One special barium glass lens with a focal length of six and a half inches covers a plate nine inches square, representing an angular field of 95 degrees. A whole set of lenses goes into the nine-lens aerial camera now being used by the Coast and Geodetic Survey in map making. This camera records nine photographs, shot simultaneously, on one film, transforming the eight marginal oblique shots into the same plane as the central one, and combining them into one composite photograph. At elevations of 22,000 ft. each covers an area of 300 square miles. At higher elevations, shots of 600 square miles become possible.

Ready to Open Lakes

Coast guard cutter leaves Michigan harbor to break ice. Big shipping season expected.

WITH steamship companies on the Great Lakes expecting a season in which tonnage will approach the record volume of 1929, the United States Coast Guard Cutter *Escanaba* poked her nose out of harbor at Grand Haven, Mich., last week to open a passage at the head of Lake Michigan and give the Great Lakes operators an early start. Though the winter generally was mild, there has been much cold weather in northern Michigan, and there is considerable ice at the head of the Lakes.

Big Ore Cargoes

Lake steamers move all manner of raw materials and processed goods. The total of bulk freight carried last year leaped to 114,414,748 tons, a jump of 38.06% over 1935. Biggest filler of ships is iron ore, moved from the Iron Range in Minnesota, by way of Lake Superior, to the steel areas around Chicago and Cleveland. Iron ore moved last year mounted to 50,200,666 tons, a leap of 58.03% over the tonnage carried in 1935. This season, with the night skies red over steel cities such as Gary, Ind., the Lake steamship operators expect to move between 60,000,000 and 65,000,000 tons, compared with the 66,000,000 in 1929.

Next biggest filler of holds is coal. Shipments of soft coal last year totaled 44,010,585, an increase of 26.72% over 1935 tonnage, while shipments of anthracite spurted to 688,858, a leap of 23.22% over 1935. Shipments of limestone, the largest since 1929, mounted to 12,080,672 tons, a jump of 33.02%. Movements of grain leaped to 7,433,967 tons, an increase of 10.13%.

The Record Year

Earliest and most spectacular opening of the Great Lakes to shipping, though only temporary, was in December of 1897, when P. D. Armour, founder of Armour & Co., and big grain speculator, had the channels opened and poured millions of bushels of wheat into Chicago. Armour, selling wheat short, had played into the hands of young Joseph Leiter, son of Levi Leiter, Chicago merchant prince of the Gay 90's, who seemed momentarily to have run a corner in December futures. Old P. D., however, was too proud and seasoned a warhorse to lose to the young speculator. He opened the Lakes to shipping, personally assuming insurance on all vessels, and poured wheat into Chicago until Leiter was glad to settle his December contracts.

Cut Workers' Colds

Employers who air-condition their offices have fewer absentees, survey reveals.

ALMOST daily some leader of American business, lunching with his associates or chatting in his office, makes the statement that common colds and employee absences due to them have dropped materially since his offices or factories are air-conditioned. For example, W. B. Bell, president of the American Cyanamid Co., says that this has been found true of American Cyanamid employees since the company moved its offices from a New York office building which was not air conditioned to the air conditioned R.C.A. Building in Rockefeller Center. But until last week, when the *Chicago Tribune* described the effects of air conditioning of Tribune Tower on the health of *Tribune* employees, the general public has known of no comprehensive, statistical study bearing upon the subject.

Tribune's Health Chart

The *Tribune* story, illustrated by a chart, covered a survey of employee health beginning in May, 1933, twelve months before air conditioning was installed, and running down through 1936, when influenza was rampant in Chicago as well as in many other places. In the year preceding the air conditioning of Tribune Tower, when the paper had an average monthly total of 2,150 employees, 475 were forced to stay home because of illness, missing a total of 2,228 days of work. But in the 12 months after air conditioning was installed, when there was an average monthly total of 2,500 employees, only 345 stayed home because of sickness, and they missed only 1,290 days of work. In 1936, when the *Tribune* had an average monthly total of 3,000 employees and Chicago was full of influenza, only 571 stayed away from the office because of colds, influenza, or kindred infections.

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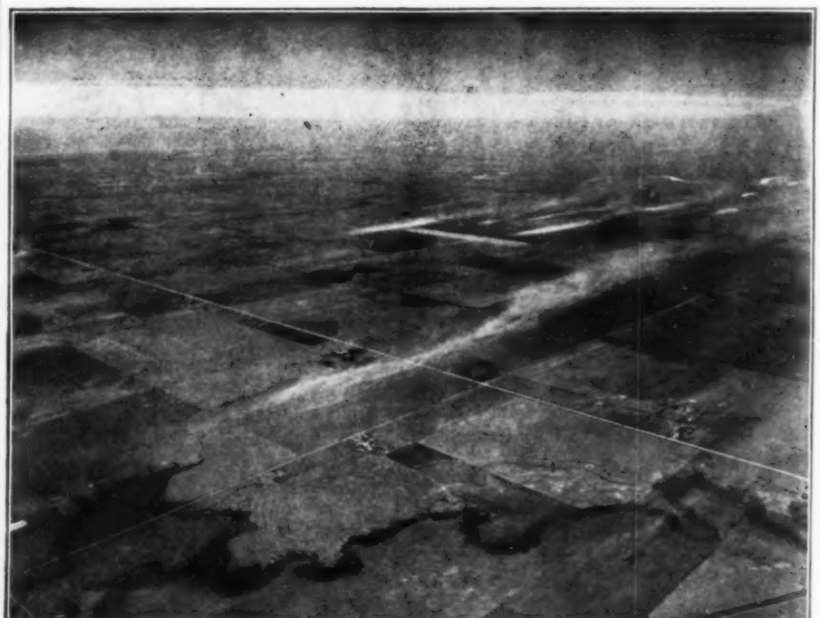
Device Cuts Cargo Sweat

ENGINEERING calculations show that ten tons of condensable humidity may enter the cargo space of an ocean freighter through orthodox outside ventilators during one 24-hour period. Small wonder that cargoes frequently sweat, corrode, mold, germinate, self-heat, all according to the nature of a particular cargo. Claims for damage mount to discouraging figures.

Alert to this situation, Colby Steel & Engineering Co., Seattle, works currently on installing its new "Cargocaire" in several Pacific Coast ships. Based on the principle that sudden changes of temperature condense airborne moisture into ship's sweat, and designed to occupy only one-fourth of one per cent of cargo space, this all-metal motorized service promises to minimize sweat and to provide adequate means for fire-fighting and fumigation. Pilot house indicators show temperature and humidity of each hold constantly.



Aerial Explorations

KICKING UP DUST—How the wind begins to whip up the "black blizzards" so disastrous to farmers is excitingly shown in this aerial view of the outset of a dust storm in northern Oklahoma. In the foreground one can see contour farming and trees planted to protect the fields. A few days ago the AAA announced a program providing for the expenditure of $1,750,000 a year with a view to controlling wind erosion.

IS HE CAREFUL?

Addresses 100 Competitors in His Best Clothes
Addresses 1000 Customers on Cheap Paper

AT ATLANTIC CITY this manufacturer addressed a hundred members of his trade association. To live up to the dignity and standing of his company, he appeared in new shoes, a custom shirt, and a perfectly fitting new hand-tailored suit.

Every day this man's company addresses (on paper) more than a thousand customers and prospects. Yet he never stops to notice that his paper and envelopes are of the very cheapest, least impressive character that can be bought.

If you are in business or professional life fine paper is important to you. It supplies atmosphere. Your customers feel this atmosphere. What they feel, they believe.

Fortunately, the cost of even Strathmore's fine papers is negligible. You can have the most widely used rag-content bond letter paper in America—STRATHMORE HIGHWAY BOND—for less than 1 per cent more, per complete letter, than the cheapest paper you might buy. Even if you specify as fine a bond paper as can be made—STRATHMORE PARCHMENT—the added cost, per letter, will be but 2.9%.

We will gladly send you the Strathmore Letter-Cost Analysis audited by Certified Public Accountants. With this useful analysis we will include liberal samples of Strathmore papers and envelopes-to-match for your use. Write for **B-2** Samples today to Strathmore Paper Company, West Springfield, Massachusetts. (Strathmore envelopes-to-match are made by Old Colony Envelope Company, Westfield, Mass.)

STRATHMORE

Maker of Fine Papers

PAPER IS PART OF THE PICTURE

New Products—New processes, new designs; new applications of old materials and ideas.

PICTURESQUE as Mexican adobe is, this age-old native building material has always cracked and crumbled. Comes I. F. Laucks, Inc., Seattle and Los Angeles, with "Rezene," a resin-base anti-crumbling sealer to be painted or sprayed on adobe without discoloring it.

TO simplify the storage battery dealer's job of stamping date of sale on each job sold, Willard Storage Battery Co., Cleveland, provides a die-

Business Week

cast zinc-alloy stamping ring, eliminating necessity of fumbling through a numbering punch set. Ring carries all 12 months of 1937; principle appears to possess many applications.

FOUR valuable contributions to plant and building maintenance: (1) a valve reseater set wherewith old seats may be reamed out and new seats quickly installed, manufactured by Standard Reseater Corp., 423 W. 126th St., New York; (2) a virtually drop-proof flashlight with rubber-covered lens frame and base designed by the B. F. Goodrich Co. for Hipwell Mfg. Co., Pittsburgh; (3) a motor-driven wire stripper wherein whirling blades cut insulation, twist wires, if necessary, and polish them, made by Ideal Commutator Dresser Co., 1648 Park Ave., Sycamore, Ill.; (4) a circular slide rule designed by R. G. Raymond, managing director, Chicago Lighting Institute, to solve lighting problems. Given the foot-candle intensity required and the space to be lighted, move the disk to determine proper lamp size and spacing.

WATER used for washing air picks up corrosive matter from the air: carbon dioxide, sulphur compounds, even oxygen itself. Recirculated, this water raises hob with spray nozzles, condensers and baffles, whether ferrous or nonferrous. In other words there is genuine need for "water conditioning for air conditioning," a phrase coined by Ferro-Nil Corp., 500 Fifth Ave., New York, which has recently improved and extended its formulas to correct a wider range of adverse water conditions.

ANOTHER problem of air conditioning is that of suppressing and eliminating odors: human odors in the case of recirculated air; outside odors sneaking in through intake ducts to upset workers and frequently to contaminate products. Consolidated Air Conditioning Corp., 114 E. 32 St., New York, is ready to solve the problem with a line of mechanical-chemical "Odor Adsorbers" designed to combat and conquer odors ranging from ether through B.O. to garlic to polecat.

LAWN-MOWER pushers who sometimes let their grass grow too high between cuttings will be particularly interested

Columbia

in the new rubber-tired multi-blade mower of Eversharp Lawn Mower Mfg. Co., 409 S.E. Clay St., Portland, Ore., for its ability to handle 8-in. grass. Sticks and stones slip between blades with comparative ease; resharpening ceases to be a problem.

ONE new plastic is a product of oil-well gas. Another older one is made of skim milk. Comes still another plastic, so new as to be yet unnamed, with potato flour as 85% of its composition. With a specific gravity of 1.3, this new plastic is transparent as glass, can be penetrated by ultra-violet, is available in almost any color, can be sawed, screwed, and bored. R. A. Van Linge, Veendam, The Netherlands, is developer and maker.

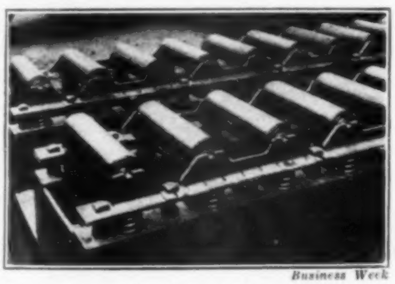
"SAVE the surface and you save all," says the slogan, and New Jersey Zinc Co., 160 Front St., New York, steps forward with two new surface savers: "Cryptone MS," a paint pigment composed of a "haystack and leaves" mixture of microscopic flat, granular, and needlelike particles which help form a

paint film of greater durability and higher stability under adverse temperature and moisture conditions; and "Cronak," a dip process which deposits a thin tight film of clear golden brown on zinc surfaces to retard corrosion, lengthen surface life, and prevent "white water spots." Created originally to protect small die castings, Cronak now becomes available for galvanized work of any size.

CROWDED out of electric lighting service by metal glowing in inert gases, the old original carbon-vacuum lamp finds new uses in heating and resistance service. Newest application as a heating unit is in the "Quandac Vaporizer" of Seebasco Corp., 1323 E. Main St., Richmond, Va., an inhalant which introduces medicaments into the lungs.

DIESEL principles find new application in a pile-driving hammer of C. H. Johnson & Sons, Ltd., Manchester, England. The heavy hollow ram, moving up and down on fixed guides, acts also as diesel cylinder. A stationary piston projects from the hammer's "anvil." During the lower part of its travel, the hammer slides over the piston, creating compression and consequent heat. Fuel oil simultaneously jets through the piston's hollow head, meets heat, and explodes, shooting the hammer back to the top of the guides ready for another business down-stroke.

FOLLOWING six months of test under production conditions, Mathews Conveyor Co., Ellwood City, Pa., swings



Business Week

into the marketing of its Shock-Absorbing Roller Conveyor. Though no one is going to drop heavy loads into conveyors intentionally, cranes do sometimes get out of hand. Resilient springs underlying rollers will absorb shock, protecting bearings and rollers themselves.

BY the simple expedient of welding a patented spiral or corkscrew of heavy steel rod all along the topside of an I-beam used in concrete floor construction, and by so pouring the concrete that the corkscrew becomes a part of the concrete reinforcement, the "Alpha Floor System" achieves rigidity with lightness. POrete Mfg. Co., North Arlington, N. J., is prepared to furnish engineering plus spirals.

Harris & Ewing

NEW LINER FOR U.S. — The Federal Maritime Commission recently opened bids for the building of a vessel to replace the *Leviathan*, considered too old to cope with foreign competition. For a liner accommodating 1,102 passengers the Newport News Shipbuilding and Drydock Company submitted a bid of $14,375,000, which was $620,000 less than that of the New York Shipbuilding Corporation. Left to right: M. M. Taylor; Telfair Knight, commission secretary; Rear Admiral H. A. Wiley.

Kennedy Knocks His Job

New chairman of Maritime Commission finds himself handicapped by faulty 1936 law. After administering it for a time, he will seek amendments.

WASHINGTON (*Business Week Bureau*)—"It's a lousy law." With tart inelegance, Joseph B. Kennedy, new head of the Maritime Commission, sums up a long bill of particulars against the Merchant Marine Act of 1936 that will be presented to Congress in due course, with a request for amendments. After fumbling for years in defining a national policy with respect to the merchant marine, Congress finally purged itself of half-way measures in which politics was no bar to subsidy; but the result is a hodgepodge that lays a back-breaking task on the commission charged with its administration.

Summary concellation of the air mail contracts in February, 1934, had raised such a hullaballoo that more finesse was desirable in scrapping the ocean mail contracts. There are still some who think, however, that, by comparison, the Merchant Marine (Jones-White) Act of 1928 wasn't so bad as it was painted by Sen. Black, of Alabama.

The test of the new law will be in its administration. After marking time for months in which a temporary "quorum" served to digest the hash of the old Merchant Fleet Corp. and the Shipping Board Bureau, President Roosevelt finally named a full slate topped by Joseph B. Kennedy in the confident expectation that he will do a job comparable with his performance in harnessing Wall Street to the complex Securities and Exchange Act.

The law itself carries the threat of government ownership in the stipulation that if its objectives can't be fully realized within a reasonable time under private ownership, the commission may proceed to build yards and ships, with no limitation on construction cost, for charter operation at a nominal hire or none at all. The public ownership provisions survive from the Guffey bill, authorship of which is credited to O. P. M. Brown, of the legal division of the Fleet Corp.

Senators Intervene

One of the first acts of the temporary commission last November was to assign Mr. Brown to its London office, ostensibly to coordinate its activities with those of the home office. With utter candor, the commission announced a week later that "at the earnest request of Sen. Guffey, acting also in behalf of Sen. Gibson and other senators interested in maritime legislation, the Maritime Commission has canceled orders to Mr. O. P. M. Brown to proceed to London on temporary duty, in order that his expert knowledge on maritime matters may be available to these gentlemen."

And so the pot continues to boil merrily as the new commission prepares for its task. Kennedy's colleagues include Admiral H. A. Wiley, U.S.N. retired, who was a member of the temporary commission; Admiral Emory S. Land, U.S.N. retired, former chief of the Navy Bureau of Construction and

Repair, a crack naval designer and cousin of Charles A. Lindbergh; Tom Woodward, former member of the advisory committee of the old Shipping Board Bureau and a Guffey man; and E. C. Moran, former congressman from Maine who obligingly withdrew from a race for re-election in the Pine Tree state last fall and has reason to know that Postmaster General Farley pays his debts.

In effecting the change-over to the new system of government aid for the merchant marine, Kennedy and his colleagues are hampered by arbitrary date lines in adjusting 42 old ocean mail contracts, automatically cancelled June 30. These eventually will be supplanted by operating differential subsidies under which the government, in effect, will pay to ship owners the difference in cost between operating American and foreign flag ships on the same trade routes or comparable conditions. In addition to the 29 contract holders, operating 350 mail-carrying vessels, other American steamship companies engaged in foreign commerce may apply for subsidies. All told, 58 companies, operating 538 vessels, have registered with the commission.

How Subsidy Works

Government assistance in ship construction also is set up on a differential basis by which the government will contribute, up to 50% of domestic cost, an amount constituting the difference in cost in American and foreign yards and, in addition, loan the steamship company 25% of the domestic cost to be repaid over a 20-year period at 3½% interest.

This scientific method of subsidizing development of the merchant marine is appealing from an academic standpoint, but foreign ship builders, as the commission has discovered, are very secretive regarding cost data needed in establishing a formula for practical application of congressional policy. Another stumbling block is the minimum of 25% cash which the steamship company must put up to build a new ship that, incidentally, must be acceptable for use in naval auxiliary service. Commission experts in conjunction with the Navy Department have worked out plans for a standard cargo vessel, also a tanker, adapted for naval or military service.

Trade Routes Studied

Recent amendment of the law has relieved the commission of the immediate duty of disposing either by sale or charter before June 29 of five government-owned lines now operated by managing agents. Recently described by the temporary commission as "far from satisfactory," these operations include America Pioneer Lines, the America-France Line, the American

Hampton Roads Line-Yankee Lines, the Oriole Line, and the American Republics Line.

The commission also has the job of surveying other foreign services in which American ships are engaged, with the object of determining the essential trade routes for the country's water-borne commerce and, by consolidation, eliminating routes over which American ships are operating at a loss. Others will be expanded where traffic justifies it.

Now in progress are below-water line surveys of 197 vessels in the commission's laid-up fleet to determine which are suitable for commercial services or defense auxiliaries, which could be used in emergency, and which should be scrapped. It has been 10 years since these ships have been hauled out for a look at their bottoms.

New Ship to be Built

Award of a contract for construction of a modern ship to replace the *Leviathan,* laid up two years ago by United States Lines, is expected within a month. This will be the first ship built on the foreign-domestic differential subsidy basis. The Newport News Shipbuilding & Drydock Co. underbid the New York Shipbuilding Corp. with a figure of $14,375,000 for a cabin liner accommodating 1,102 passengers, similar to the *Manhattan* and *Washington.* On an alternate design, providing for 1,143 passengers, suggested by United States Lines, the Newport News company bid $15,455,000. Bidding on a design of its own, Newport News Co. offered to build the ship for $14,560,000, and the New York Shipbuilding Corp. submitted a "streamline" design for $15,665,000.

Urge Marine Merger

Experts say Maritime Commission and Commerce Department's bureau should be combined.

WASHINGTON (*Business Week Bureau*)—Proposed consolidation of the new Maritime Commission and the Commerce Department's Bureau of Marine Inspection and Navigation has a sympathetic ear in the commission. The suggestion comes from the board of marine experts (including J. B. Weaver, the retiring chief of the Bureau of Marine Inspection) that for 18 months past has been studying ship safety as the basis for legislation governing construction and inspection of vessels in future.

The report submitted to Sen. Copeland's Commerce Committee includes rules which, if made compulsory in both foreign and domestic services, as recommended, will, in the technical

board's opinion, go far to averting disasters such as the *Morro Castle* and the *Mohawk*. Safety standards are recommended both for new construction and the modernization of old ships.

More rigid requirements are proposed for subdivision of ships to prevent flooding; but of more novelty is the board's conclusion, as the result of extensive tests, that materials are now available for building a fireproof ship without materially increasing the cost or weight. The board found that it is not necessary to protect the steel structure, as, in a ship, this almost never loses its integrity due to fire. The problem resolved itself into reducing to a minimum the amount of material that will support combustion; and a form of construction has been developed that will not sustain combustion in any part of the ship's structure.

The board urged combining the Maritime Commission and the Bureau of Marine Inspection for the purpose of reducing duplication and overlapping of many functions. Higher pay for bureau's inspectors was emphatically recommended with the injunction that legislation embodying the new rules will fail unless enforced by a corps of men not only trained at sea but competent to handle all phases of ship design, construction, and operation.

Boost Florida Canal

Project, seemingly killed, is revived as Gen. Markham overrules other engineers.

WASHINGTON (*Business Week Bureau*)—Banquo's ghost had nothing on the Florida ship canal, which is back in the news again after being killed off by heavy oratory during the last session of Congress.

One of the most telling arguments used last year against the project was that the Army Engineers, whose approval of any project affecting navigation is considered essential to action by Congress, had never recommended its construction. This argument is now blasted by the fact that Maj. Gen. E. M. Markham, the Chief of Engineers, has given his official blessing as the climax to a series of four reports by various sections of the army's hierarchy, each of which has varied markedly from all of the others. Two of these find that the cost of the waterway will be justified by the resulting benefits to shipping; two of them do not. The latest, being signed by the head man, should be conclusive; but, considering the differences of opinion in both Congress and Florida, it probably will simply start another long tug-of-war.

Argument in Figures

Gen. Markham estimates that the canal can be built at a cost to the federal government of $197,921,000, with local interests putting up an additional $3,000,000 for lands and rights-of-way. Annual charges will be $8,905,000; annual savings to shipping $8,741,000. Furthermore, says he, shipping volume will increase in the future and, if the canal is not built, lots of money will have to be spent in Florida for relief. Therefore let's build it.

Opponents will seize with glee upon the prior report of the Board of Engineers for Rivers and Harbors, which estimated the cost of the big ditch at $265,282,000. This, according to Gen. Markham's judgment, is ultra-conservative, and is based upon a minimum depth of 35 feet, whereas the general feels that 33 feet would be ample. The board also viewed with misgiving the possible result of a sea-level canal upon Florida's artesian water supply.

S.O.S.S.

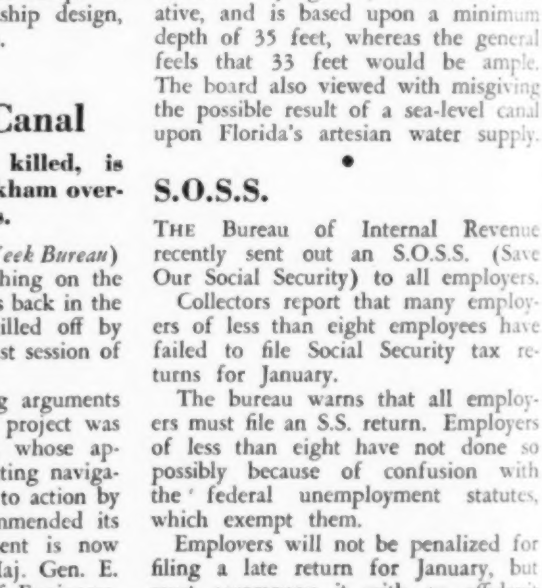
THE Bureau of Internal Revenue recently sent out an S.O.S.S. (Save Our Social Security) to all employers.

Collectors report that many employers of less than eight employees have failed to file Social Security tax returns for January.

The bureau warns that all employers must file an S.S. return. Employers of less than eight have not done so possibly because of confusion with the federal unemployment statutes, which exempt them.

Employers will not be penalized for filing a late return for January, but must accompany it with an affidavit stating the reasons for delinquency.

Austin Co.



SYMBOLIC — Advances in building technique have been fully used in the new laboratory of the American Rolling Mill Co., Middletown, Ohio, designed and built by the Austin Co., Cleveland. Welded frame of steel, with glass block, acoustic cork insulation, stainless steel trim and porcelain finish, it testifies to recent research in building materials.

BUSINESS WEEK REPORTS TO EXECUTIVES ON—

Business, the Banks, and Working Capital

It was in the air. Bank loans were expanding. Business required more money for operations. "Critical" is the word for it. And three months ago—on January 13 to be precise—Fenton B. Turck, vice-president of American Radiator & Standard Sanitary Corp., called on James H. McGraw, Jr., chairman of the McGraw-Hill Publishing Co., and Glenn Griswold, editor of *Business Week,* with suggestions for a survey of working capital requirements of American business as a contribution to economic and industrial thought. The suggestions were taken up with dispatch. Questionnaires at once went out to banks and business men. Research workers combed annual reports for facts. The seven breeds of money were analyzed and classified. The results are on the next nine pages.

REPORTS TO EXECUTIVES • BUSINESS WEEK •

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Number 3 of a series of special reports on current business opportunities, problems and trends of outstanding significance. Made for executives by the editorial staff of Business Week, McGraw-Hill Publishing Co., 330 West 42nd Street, New York, N. Y.

IT isn't a new problem, nor a sudden problem. Rather, it's a stealthy problem. It creeps up on the unsuspecting business man like a friendship or a love affair. He's sitting at his desk, sorting his bills payable, his accounts receivable, his payroll tickets, and he comes to the not entirely satisfying conclusion that he needs a bit more cash than he did the month before, and a lot more than he needed six months before.

He's not exactly pinched, mind you, and he's not exactly worried. But it's something to think about. After all, a fellow's got to know where he stands. And he turns back his ledgers to 1934 and finds, to his statistical consternation, that for every dollar of working capital then, he requires $1.17 now; that for every dollar of current debt he owed then, he has accounts payable of $1.59 on his books now, and that for every dollar of inventories he had to carry two years ago, he's stocking $1.20 now.

He knew business was good! But he didn't realize it was that good! And his payroll. That's filling out like a puppy dog's tummy after a bowl of milk. For every hundred men he employed in 1934, he has 111 now. And with higher salaries and higher hourly wage rates, he has to put 31% more cash in the weekly pay envelopes. The net result is that his working capital position is not as free and easy as it used to be. Let's see. In 1929, for every $5.24 of liquid assets, he had only $1 of short-term debts. A 5.2-to-1 ratio. Not bad. And by 1934, business was at such a low ebb (and he was paying his bills just as soon as they came in), that the ratio was 6.4-to-1. But by the end of 1936, the ratio had dropped to 4.7-to-1. Still pretty good, but still. . . .

He puts on his coat and hat in a sudden surge of resolution. Maybe it would be a good idea if he dropped in for a chat with his banker. Not to raise money, mind you—just to talk things over. After all, there are times when a little additional working capital can come in handy and at such times a banker is worth more than a nodding acquaintance.

Strange, the way a thing like this comes up on you. It's just like driving an automobile on a clear, straight highway. You're easing along at 30 m.p.h., thinking of this and that, and then out of the blue a man on a motorcycle blows a whistle alongside you. You look at your speedometer and it's 55!

Business when it starts expanding works just like that. Operations stealthily pick up, first in the form of feelers or inquiries, then as definite orders. More inventories, more men, more cash on hand are needed. The producer finds that he is using more of his own working capital and more of his suppliers' working capital. For as his bills payable mount, the unmet bills represent capital advanced on open-account from the outside. And his own customers owe him more, too. So that just about balances things off.

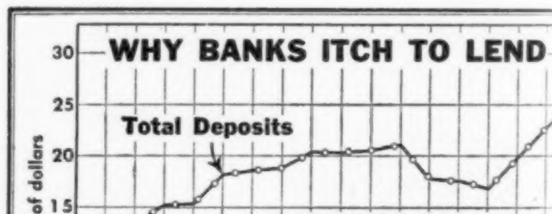
Right now, everyone's in the same crate; everyone's stocking up on inventories. There's some hectic, competitive bidding for merchandise. Deliveries are delayed. In some lines there's a shortage of skilled labor. Result: Prices go booting skyward. And if you want to replenish your stocks, the multiplication table starts working feverishly against you.

Not only must you buy larger quantities, because you're turning out more orders, but also you've got to pay higher prices. Which means that your inventories on hand are draining a larger and larger share of your cash assets. Besides, because you're not sure that you're going to get goods when you want them, you've got to play against time. Instead of putting in stocks for three months, a six- or nine-month lay-in becomes exigent. Which aggravates the impact of the multiplication table: higher prices; larger quantity; longer time.

Then there's that pestiferous undistributed earnings tax ("pestiferous" is the word you use in the drawing room when women are around). Not only does it take a Philadelphia lawyer to figure it out, but it acts just like a force pump that you can't control—pushing out your cash just when you need it most. True, you don't have to hand the earnings over to the government; you can pay dividends to stockholders. But what a dilemma to put you in: If the stockholders don't get it, the government will.

IN the old days, stockholders could whistle for their money. The company kept what it needed for the business; investors got the rest. Usually 40% was held back, 60% went out. For every $10 earned, the corporation clung to four, and those four dollars made it possible to add new plant, to install modernized machinery, to increase inventories, and—most important of all—to tide the business over the rainy season. Plowed-back earnings were a nice supplement to your depreciation reserves. Now, there's none of that unless you pay the government for the privilege of letting you keep your stockholders' money. Your money and your prerogative, you used to think.

The government got very little surtax from you last year. You kissed your profits goodby as you wrote out dividend checks to stockholders. But now you pause as you consider the higher expenses incidental to running



NEED WORKING CAPITAL?—Try the banks. They are anxious to get out of the investment trust business, as holders of huge amounts of bonds, and back into the banking business. In 1936, business loans increased about $800,000,000, indicating that industry once again is borrowing. But still the trend of "other loans" is not emphatically up. Though banks customarily make only short-term (90-to-180-day loans) commercial loans, the funds rotate from business to business, and consequently are a revolving source of working capital to industry as a whole. The chart does not show the position of all banks, but represents a sufficiently large cross-section to reflect what is taking place all over the country.

What Your Banker Thinks About Working Capital Loans

(Excerpts from answers to a *Business Week* Survey)

"We expect to go along as usual during 1937 rendering such assistance to business as we can in a conservative manner. It is our belief that notwithstanding the severe exactions of the new corporate earnings tax law, working capital will, for the present, continue to be increased from normal operations."—*The Union National Bank,* Eau Claire, Wis.

"We would not hesitate to make a one- to three-year semi-capital loan if the financial condition of the company justified it, and if the prospective earnings would assure liquidation of the loan on an amortized basis. . . ."—*First Security Bank of Utah National Association,* Ogden, Utah.

"We do not look kindly on capital loans and sidestep them as adroitly as may be."—*The Bank of Arizona,* Prescott, Ariz.

". . . . The dividend distribution tax . . . has caused or will cause much trouble to many small business corporations in the near future. This will retard expansion and many that now owe may not be able to carry on."—*First National Bank,* Roswell, N. M.

"Few concerns have supplemented their working capital by short-term borrowing from banks. . . . Only one has been able to secure funds by mortgage money and none has found stockholders with capital available to put in. Two have increased their capital position by direct loans through the Federal Reserve Bank and probably others could and should do so but seem reluctant to enter into financing with the Government."—*First National Bank of Aberdeen,* Aberdeen, S. Dakota.

"Small corporations do not have the means or connections to reach investors through investment bankers. It is very seldom that stock or bond issues of small concerns, say $25,000 to $100,000 . . . are accepted by investment bankers, due to the limited demand of investors for securities of a small issuer."—*American Trust Company,* Charlotte, N. C.

"About the only method by which a small business can increase its working capital beyond the amount which can be supplied by short-term (12 to 18 months) loans from a commercial bank, is by earning it."—*First Citizens Bank and Trust Company,* Utica, N. Y.

"Small businesses . . . have always had a difficult problem to obtain sufficient capital to adequately finance their operations."—*The Bank of Carthage,* Carthage, Mo.

"There seem to be concerns that need working capital but they are not entitled to bank credit because of lack of supporting assets. However, they have a worthy product and good prospects. . . . Their only 'out' seems to be . . . the sale of share interests to local people."—*First National Bank and Trust Company,* La Porte, Ind.

your business and the further fact that you've just received an unusually large order from a customer you hadn't heard from for years. That means an immediate boost in inventories. But then you don't stand alone. Paying out most of the earnings was standard practice. Sears, Roebuck did it; so did Chrysler, General Foods, Westinghouse Electric & Manufacturing and a bunch of others. Yellow Truck & Coach even went so far as to recapitalize (*BW—Oct31'36,p15*) so as to convert a profit-and-loss deficit into a profit-and-loss surplus, and thereby to be able, under state laws, to pay a dividend.

By all odds, the undistributed earnings tax was the most revolutionary working capital development of 1936. And that waster of few words, Sewell L. Avery, president of Montgomery Ward, had this to say about it in his annual report:

"Although the 1936 earnings would have provided a large part of the increased working capital required during the year, it was necessary, to avoid excessive surtax penalties, to distribute all of the year's earnings in the form of cash dividends. . . . To obtain the necessary new working capital, the common shareholders were offered additional common stock . . . which provided approximately $25,000,000. In the near future the company will be faced with the necessity of obtaining the further increase in working capital which the growth of its business makes necessary."

Now Montgomery Ward earned $20,200,000. It paid out in dividends nearly all of it, $19,700,000. Then, it turned around and scooped in $25,000,000 by issuing rights. Thus in the course of a year it had added $25,500,000 to its working capital. And still that was not enough. The reason: inventories jumped $21,700,000 and the company spent $7,000,000 more for land, buildings and equipment than was set aside for depreciation.

That's what expansion did for a particular business; but what happened to Montgomery Ward was by no manner of means extraordinary. More or less, it happened to every other business in the United States—simply because prosperity demands capital—working capital.*

TO John Bancroft, Jr., president of the century-old textile finishing firm of Joseph Bancroft & Sons Co., of Wilmington, Del., preservation of working capital was so important that he paid the government 26% for the privilege of holding on to his stockholders' money. It cost him $43,000 to keep about $160,000. And that after six years of unrelenting deficits! But John Bancroft saw it this way and in these words:

"While your company earned a part of the dividend . . . on its outstanding preferred stock, its increased business and the concomitant need of cash made it necessary to withhold any distribution of dividends and, even if earnings continue, the policy of withholding dividends must be pursued until the working capital of the company is again brought into line with its business requirements."

John Bancroft knows, as every keen business man knows, that common stock money is the safest kind of money on which to pivot a business. It is "for keeps" money and not like bond money which rings the doorbell

* As used in this report, "working capital" means the sum of all cash, marketable securities, inventories, accounts receivable. "Net working capital" would mean the difference between all current assets and all current liabilities.

General Foods on Inventories

Taking no chances on further price rises, General Foods Corp., in its annual report, outlined its policy of preparedness as follows:

"Feeling that all manufacturing costs would increase, we have made an effort to protect ourselves as far as possible by contract on all packing materials and supplies. We have increased our inventory at all plants on materials that could not be covered by future contracts . . .

"As a result of maintaining adequate protection of inventories, a larger proportion of current assets was represented by inventories at the end of the year and a smaller proportion by cash and securities."

at a predestined date. And common stock capital which comes out of earnings is the easiest money for a management to lay hands on. There is no need to call in underwriters to sell bonds or stocks; there are no commissions and no red tape. The money just stays in the company's treasury.

The 26% exaction by the Collector of Internal Revenue seems exorbitant. But is it? If John Bancroft had distributed the money in dividends and then had gone to his banks to borrow, say at 6%, in five years he would have paid 30% in interest. And he would still owe the money! That's why business men prize their retained earnings so highly.

CHAIN store expansion is an incontestable example of what plowed-back earnings can do for an industry. True, many chains sold additional stock. But for the most part, each new store has been established out of the surplus earnings of its predecessors. And although the undistributed earnings tax has altered the technique of holding on to earnings, it has not changed the method.

The downpour of Indian-gift dividends which were lavished on stockholders in November and December, 1936, was simply old wine in new bottles. The directors, to avoid the surtax, paid out a goodly share of earnings, and then by offering stock rights took the money back in order to replenish working capital.* In the end, the stockholders had more shares of stock, the company had become more heavily capitalized, ultimate earnings per share might be lower, but the out-payment nullified the in-payment. The company had its cash, and the government collected little or no taxes.

Small companies seldom can evade the surtax in this wise. Often, the capital is supplied by the managers themselves. If they pay out all the dividends to themselves, then they must pay personal income taxes on those dividends. When they get through, obviously, they cannot put back the same amount as they received. The large company, however, simply hires an underwriter and the banking firm subscribes for whatever shares are not taken up by stockholders. (And usually the company compounds the capital inflow by floating an amount of stock which brings in far more cash than it paid out in tax-forced dividends.)

Whichever the method—whether the common stockholders' money is just kept or whether it is enticed back by issuance of rights—the consequence is the same. The amount of common stock money in the enterprise is increased, which has its vice as well as its virtue: the larger the amount of common stock money, the smaller the percentage earnings, and vice versa, the smaller the amount of common capital and surplus, the larger will be the percentage.

SOME managements deliberately play for big percentages. Take the case of a small New Jersey manufacturer of silk draperies. In 1935, the enterprise earned 8% on its $10,000 of common stock; in 1936, about 50%, and this year it expects to realize 100%. The company, however, needs money for expansion. It can easily obtain that by the sale of additional common stock. But the business is owned and controlled by two men. They are not interested so much in safety as in rapid turnover of capital: they want profits.

So, they are borrowing the money they need at stiff rates, rather than take in new owners to share their good fortune and their prospectively rich enterprise. This procedure places the company in jeopardy, if and when business contracts; if and when their inventories suffer sharp declines. But the management is willing to balance high hazards against high profits.

Generally speaking (and generalizations concededly have their multitudinous exceptions) large corporations tend to retain a larger share of common stock money—through the simple procedure of plow-back—than small enterprises. For one thing, the absentee managers have a wide discretionary control over dividend policy and are interested in preserving their own jobs and keeping the business solvent; for another, they are not so acutely concerned about playing for the high percentages. They are willing to pay a premium for safety.

This Bank Would Have It This Way

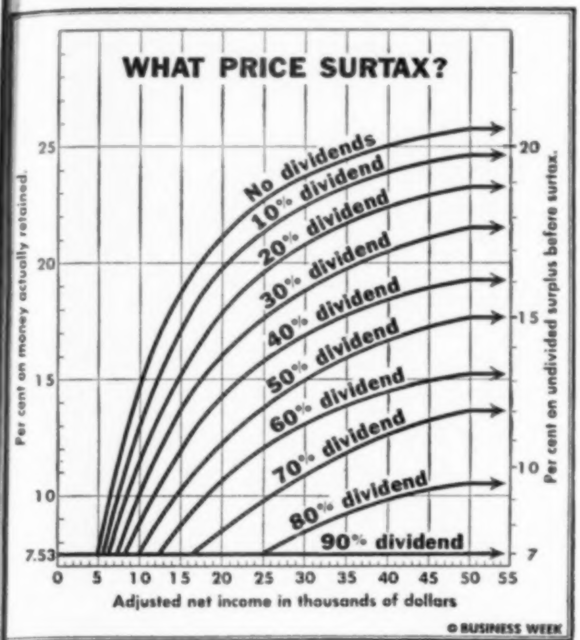
Like all bankers, W. L. (Laird to the townsfolk) Dean, president of the Merchants National Bank, Topeka, Kan., has a decided preference for the commercial loan. He would like to be able to lend more of his bank's money on one-name paper of local manufacturers, merchants and business men.

Here is how his loans recently stood and how he would have liked them:

	Loans on the Merchants National's Books	*As Dean Wished They Were*
Secured by Business paper	$280,000	....
Secured by Stocks and Bonds	282,000	$200,000
Real Estate Liens	103,000	50,000
Chattel Mortgage Loans	62,000	....
Local Commercial Loans	289,000	617,000
Instalment Loans	101,000	250,000
Total	$1,117,000	$1,117,000

Apparently, Mr. Dean is not averse to instalment credits, but the bank politely calls them "scheduled payment loans."

* In addition to Montgomery Ward, other users of the stock-rights technique to get earnings back were Johns-Manville; American Steel Foundries; Industrial Rayon; Sears, Roebuck.



MINIMUM: 7.53%; MAXIMUM: 25.79%—That's the wide range of what it costs to plow back earnings into a company. Actually, Uncle Sam's charges are not that high on the sum that is taxable, but as far as the individual business is concerned, that's what it is. Suppose, for example, a company earns $100,000 and doesn't pay any dividends. The undistributed earnings tax would come to 20.5%, or $20,500. The company would have $79,500 left; the cost of retaining that sum would come to 25.79%. That percentage is shown on the left side of the chart. On the right side, the figures represent the percentage collected by the Bureau of Internal Revenue on undivided surplus, before surtax. The figures at the bottom represent adjusted net income; that is, earnings after normal taxes. To find the tax cost on earnings actually withheld do this: First, find the amount of adjusted net income; second, run a straight line to the percentage of dividends paid out; third, from that point run a straight line to the left. To find the percentage of tax on undivided surplus (before surtax), follow the same procedure, but run the line to the right. On companies with adjusted net incomes of $50,000 or over, the percentage of tax does not vary with the size of the earnings.

Thus, there was an accelerating trend in new financing away from bonds and toward common stocks during 1936. More than $1,000,000,000, or 21.6% of all funds raised through the sale of securities, was accomplished by the sale of common shares. A similar trend was evident during the 'twenties, when the major corporations held on to their stockholders' money or sold new shares, with the result that in the post-1929 business fall-off the managements of corporate colossi were able to sit and wait.

American Telephone & Telegraph, which used the rights method regularly, went through the dismal 'thirties without stinting its "widows and orphans"; Allied Chemical and Dye, exponent of the plow-back, took care of its stockholders regularly and capped its performance by retiring its preferred stock with $41,500,000 of cash right out of the treasury; and General Motors, which has combined both securities sales and retained earnings to build up working capital, was able to prop the income of the duPonts with a steady stream of dividends, albeit reduced dividends.

The smaller enterprises, unencumbered with the pleasing weight of a full wallet, had to fight much harder to survive, and all too often the fight was unsuccessful. For each Missouri Pacific or International Combustion Engineering that bit the big business dust, there were 19 to 27 small business failures.* It was survival of the fattest, rather than the fittest, for the reason that the $100,000-or-less company does not have the same margin of error as its bulky brother. A $1,000,000-or-more business can pull several boners (like old man Merkle who forgot to touch second), but let the small machine tool company whittle away its working capital developing a device that doesn't quite do the job it was designed to do, and it's curtains—because it cannot, through its bankers, refinance its mistakes.

When a small company goes under, it sinks alone. Its bank will watch the performance ruefully, but will refuse (in most cases) to hurl good money after what may or may not be bad. But let an elephant get into deep water, and the waves will be so wideflung and highflung that they will sink others not directly involved; consequently, bankers, to save what they can, will try to keep the behemoth afloat. Thus, the J. P. Morgan-Guaranty Trust interests pushed new money into the Van Sweringen enterprises; the Chase National Bank rushed in to succor the waning Fox Film Corp. (now the gusty, going-places Twentieth Century-Fox), and a flock of institutions tried to bale out Samuel Insull.

IT takes capital to run up big debts and to be permanently in debt. The small company,† with a net worth of $100,000 or less, does not have the debt-incurring opportunities that the corporation with a stock exchange listing has. That, for a very human reason: banks know that during good markets, the big fellow can go to his investment banker and sell securities, be they common or preferred stocks, notes, debentures, or bonds. And by such financing, the company is put in funds and with those funds is able to pay off the impatient lender.

On that account, the banker is seldom impatient with such a risk. As long as he knows that a company is in a position to borrow from Peter to pay Paul, the commercial banker has little or no qualms. He can always shift the risk to Peter. Moreover, the big enterprise usually has lines of credit with three or four banks. It can borrow from one bank to pay off the other, and so around and around. In banking circles that is known as "rotation of credit." More accurately, it should be called "rotation of debt."

To banks, such rotary loans have distinct advantages. They are on the books for 90-to-180 days and therefore can be taken to the Federal Reserve Banks to be rediscounted. The small company seldom, if ever, has an opportunity to rotate its debt. Usually, the owner or manager of the business has an account with only one

* In 1930, for each failure involving $100,000 or more, there were 27 under $100,000; in 1931, the ratio was 1-to-26; in 1932, it was 1-to-19; in 1933, it was 1-to-20; in 1934, it was 1-to-24.

† The owner of a small mercantile establishment in Wisconsin in reply to a *Business Week* survey had this caustic comment to offer on banking: "Banks are not a helping factor for the small business. What small business wants is long-term loans, the same as is advocated for the farmer. We have lost a part of our working capital, therefore are unable to borrow from banks for 90 days and then pay up in full when due. The depositors of a bank should deposit for 90 days and then pull out for a month and see what would happen to the bank."

Shifting Working Capital—Industry by Industry
(Note particularly the fall in current ratios and the rise in inventory ratios)

Business—Number of Companies in Parentheses	Working Capital Ratio — Current Assets to Current Liabilities				Cash-Liability Ratio — Cash on hand to Current Liabilities				Inventory Ratio — Inventories to Current Assets			
	1936	1935	1934	1929	1936	1935	1934	1929	1936	1935	1934	1929
Autos & Auto Accessories (19)	2.70	3.02	3.75	5.04	.64	.92	.90	1.35	.40	.36	.36	.38
Chemicals & Drugs (17)	4.61	6.72	6.92	7.26	1.50	1.94	1.92	1.25	.34	.32	.34	.29
Construction Materials (9)	5.86	7.05	10.42	6.56	1.15	1.80	2.80	1.36	.31	.29	.29	.36
Electrical & Household Equipment (11)	5.45	7.25	10.31	4.04	1.25	2.42	2.23	.57	.44	.38	.43	.47
Foods (22)	4.35	5.33	4.98	4.30	1.00	1.49	1.25	.76	.47	.41	.42	.42
Machinery (14)	6.07	7.09	10.15	6.06	.90	.90	1.30	.54	.44	.42	.44	.43
Merchandising (11)	4.46	4.20	4.51	4.10	.63	.62	.78	.63	.55	.56	.56	.54
Mining & Metals (17)	4.03	4.52	5.46	4.12	.72	.76	1.11	.74	.51	.53	.48	.44
Office Equipment (4)	5.23	6.46	7.68	5.95	.96	1.18	1.46	1.10	.34	.35	.37	.34
Oil (9)	3.51	4.12	4.08	5.00	.84	.87	.64	.82	.49	.50	.54	.57
Paper & Printing (7)	3.48	3.85	4.09	3.69	1.01	1.11	1.09	.58	.34	.36	.40	.36
Railway Equipment (8)	5.10	8.80	13.04	5.43	1.10	2.22	3.05	.72	.37	.32	.31	.27
Rubber & Tires (4)	4.95	5.38	6.04	4.61	.76	.98	1.01	.79	.57	.53	.55	.49
Steel & Iron (14)	4.48	5.87	6.63	4.87	.78	1.09	1.15	.94	.57	.57	.58	.46
Textiles & Clothing (10)	3.57	4.70	6.51	10.51	.34	.48	1.11	1.79	.55	.57	.53	.42
Tobacco (9)	14.16	17.02	16.15	11.12	1.21	2.03	2.04	1.51	.76	.71	.67	.72
Unclassified (15)	4.32	5.61	6.04	6.79	.87	1.22	1.10	.89	.47	.45	.49	.53
Total Industrials (200)	4.70	5.66	6.39	5.24	.89	1.17	1.24	.87	.51	.48	.49	.46
Railroads (Class I)	.70	.66	.73	1.43	.29	.25	.24	.52	.24	.26	.28	.27
Utilities (11)	2.09	2.04	1.99	1.91	.83	.80	.71	.83	.16	.16	.16	.16

NO PETTY CASH PROBLEM, THIS—With current assets of $5,776,200,000 and with $1,229,100,000 of current liabilities, 200 leading industrial enterprises (a broad sample of all business) emerged into 1937 with net working capital at $4,547,100,000, some 10% worse off than at the end of 1929. Inventories at $2,919,941,000 topped 1929's total of $2,912,019,000, and accounted for 51% of all current assets, as against 48% in 1935; 49% in 1934, and 46% in 1929. Railroads, with only 70¢ of current assets to meet each dollar of current liabilities, reflected the depression dragdown. Utility ratios held fairly steady. The dollar figures, from which the above ratios are drawn, appear in the tabulation on the opposite page.

bank; he knows the banker as "Ed," and the banker knows him as "Jim," and that's all there is to it. When Jim wants to borrow, Ed lets him have it, and if Jim does not ask for too many extensions, Ed doesn't clamp down. Jim then ranks as a good customer and an ideal borrower, and he can get anything within reason any time just by making a telephone call.

In the small town, the banker knows nearly every business man personally, belongs to the Rotary Club, the Chamber of Commerce, and usually can be found on the golf course on Saturday. Frequently, his wife gives him a woman's inkling of what's going on: "I was in to Scarborough's store today and they're showing the crummiest line of summer clothes. Looks to me as if they're pulling last year's stuff out of the basement." Whereupon the banker, next day, will drop in to see Frank Scarborough and find out "how's things."

THE average small-town banker will see most customers through hell and high water—with good logic: he has to sink or swim with them. Too, he knows his customers pretty well, having gone to high school with them, having learned how they bet their cards at poker, and having discovered their good points and their bad. The result is that the character loan is not passé. Indeed, most small companies get most of their working capital from banks purely on character—the character of the men who run the business.

The amount of capital in a small business is frequently not great enough to withstand a severe industrial shock, therefore the banker always takes character into consideration. If Smith, for example, has a very bad season, the banker just knows that he would pawn his wife's rings rather than have a debt he can't pay back. On the other hand, he may not be so sure about Jones, and Jones doesn't get the same amount of money or the same terms—and further, the banker makes it a point to be on Jones' trail all the time.

Oftentimes, the banker may not feel that a customer has the right setup for a loan. Maybe Brown wants $25,000 for a new building or more efficient equipment, and the bank feels that he won't be able to amortize it quickly enough. Then, the banker will try to get a group together (in Wall St. it would be called a consortium) to take a mortgage, or maybe he will call in a few of the moneyed members of the community and suggest that Brown's stock might be a good speculation.

After the small manufacturer or merchant has canvassed his local banker and local investors, the avenues of credit are pretty much closed. The Federal Reserve Banks and the Reconstruction Finance Corp. will make working capital loans to run for about five years, but usually if the local banker cannot cotton to the risk, neither will a government agency. As for selling securities through investment bankers, that is virtually out of the question. The price is too high. The issuer has to pay for legal fees, for an investigation of his business, for a complete audit, and to that he has to add the distributor's advertising and selling expenses plus the banking house's commission.

Perhaps the greatest boon to the small business man (and perhaps neither he nor the local banker realizes it yet) is the Federal Deposit Insurance Corp. Because deposits of $5,000 or less are guaranteed, the banker may loosen up on longer-term credits, stretching from three to five years. That is the type of loan most small businesses need today. Now that the small-town banker doesn't have to worry about runs any more, perhaps he'll relax. Time and the recent depression favor an easy lending policy. Commercial loans have been so scarce and volume so emaciated (see chart page 54), that bankers are anxious to please their customers. As one Kansas banker summed it up: "A qualified customer has every right to demand money when he needs it. The situation is the same as when the customer has a monthly account with his grocer. The grocer knows the customer is good for $60 a month and the customer doesn't say, 'May I please buy my groceries here next month?' He simply orders what he wants, and charges it. It's the grocer and the banker who should say 'Thanks.'"

Right now, almost any banker, anywhere, has the "thank-you-very-much" attitude. Banks have plenty of money to lend. Excess reserves are still plentiful. Even after May 1, commercial institutions throughout the country will have idle funds they will itch to put to work, despite signs that interest rates are hardening—signs such as the markup in commercial paper rates, the firming up in the price for federal funds (*BW—Mar6'37,p65*), the sharp drop in government bond prices.

At the same time, however, the demand for money is

The Dollar by Dollar Story of Fluctuations in Working Capital

(thousands of dollars — 000 omitted)

Business—Number of Companies in Parentheses	*Current Assets* 1936	1935	1934	1929	*Current Liabilities* 1936	1935	1934	1929
Autos & Auto Accessories (19)	$354,339	$320,489	$252,474	$339,981	$131,070	$106,290	$67,414	$67,406
Chemicals & Drugs (17)	480,094	471,182	427,650	508,578	104,243	70,155	61,805	70,005
Construction Materials (9)	119,423	116,777	104,415	127,834	20,372	16,564	10,021	19,474
Electrical & Household Equipment (11)	241,730	238,997	194,427	332,255	44,329	32,957	18,862	82,202
Foods (22)	731,110	678,380	669,085	725,276	168,008	127,162	134,396	168,497
Machinery (14)	520,223	456,153	405,041	533,689	85,659	64,378	39,923	88,024
Merchandising (11)	523,040	423,714	369,181	462,944	117,216	100,899	81,768	112,920
Mining & Metals (17)	356,164	346,207	345,459	376,036	88,421	76,665	63,310	91,314
Office Equipment (4)	79,313	69,317	67,175	92,899	15,175	10,731	8,752	15,620
Oil (9)	226,706	224,283	208,771	239,877	64,642	54,414	51,189	47,943
Paper & Printing (7)	29,783	27,127	24,562	35,663	8,567	7,052	6,011	9,659
Railway Equipment (8)	102,442	89,971	89,799	176,518	20,105	10,229	6,886	32,512
Rubber & Tires (4)	352,852	304,058	283,193	427,186	71,261	56,539	46,880	92,623
Steel & Iron (14)	823,568	730,928	693,980	1,034,299	183,778	124,560	104,675	212,251
Textiles & Clothing (10)	114,368	104,838	95,532	152,515	32,034	22,314	14,671	14,509
Tobacco (9)	575,954	575,078	590,074	560,895	40,678	33,788	36,540	50,453
Unclassified (15)	145,102	133,019	122,504	162,811	33,567	23,702	20,283	23,961
Total Industrials (200)	$5,776,211	$5,310,518	$4,943,322	$6,289,256	$1,229,125	$938,389	$773,386	$1,199,373
Railroads (Class I)	$1,291,357	$1,081,170	$1,057,234	$1,717,953	$1,849,515	$1,637,508	$1,441,439	$1,200,984
Utilities (11)	$248,168	$232,379	$233,471	$299,099	$118,829	$114,104	$117,272	$156,540

	Inventories 1936	1935	1934	1929	*Cash* 1936	1935	1934	1929
Autos & Auto Accessories (19)	$140,025	$113,788	$91,819	$129,921	$84,298	$97,707	$60,679	$91,292
Chemicals & Drugs (17)	164,753	151,763	146,656	149,423	156,059	136,305	118,500	87,196
Construction Materials (9)	36,735	34,121	30,510	45,729	23,416	29,824	28,087	26,477
Electrical & Household Equipment (11)	106,889	91,567	82,642	155,312	55,238	79,821	42,014	46,724
Foods (22)	343,669	275,653	281,581	307,044	167,428	189,694	167,704	128,513
Machinery (14)	230,144	193,645	177,770	230,393	77,242	57,895	51,915	47,847
Merchandising (11)	287,572	238,045	206,604	251,240	74,069	62,887	63,680	71,103
Mining & Metals (17)	181,277	184,816	167,365	166,150	64,073	58,065	69,978	67,432
Office Equipment (4)	26,933	24,250	24,899	31,409	14,550	12,659	12,768	17,148
Oil (9)	111,808	112,786	112,577	137,118	54,493	47,088	32,530	39,329
Paper & Printing (7)	10,137	9,686	9,714	12,669	8,687	7,823	6,560	5,618
Railway Equipment (8)	37,945	29,103	28,271	48,362	22,202	22,659	20,972	23,479
Rubber & Tires (4)	200,412	162,362	155,880	211,126	53,806	55,603	47,178	73,214
Steel & Iron (14)	472,514	415,227	401,252	479,341	144,141	135,822	120,539	198,921
Textiles & Clothing (10)	63,307	59,468	50,616	63,990	10,923	10,767	16,321	26,001
Tobacco (9)	437,676	409,819	396,103	405,913	49,152	68,632	74,597	76,131
Unclassified (15)	68,145	59,957	59,855	86,879	29,081	28,924	22,313	21,300
Total Industrials (200)	$2,919,941	$2,566,056	$2,424,114	$2,912,019	$1,088,858	$1,102,175	$956,335	$1,047,725
Railroads (Class I)	$307,575	$279,919	$297,681	$470,073	$536,319	$413,298	$348,859	$622,485
Utilities (11)	$38,656	$36,584	$36,950	$47,476	$98,625	$91,750	$82,791	$129,460

Business Week

CRAMPED? WELL NOT EXACTLY—But American business is discovering—and most emphatically—that it takes more capital to operate today than it did in 1934. Observe the sharp rise in current liabilities of the 200 industrial companies. Increased bank loans have had a lot to do with that—bank loans in part to accommodate a $500,000,000 expansion in inventories. Note also that, whereas cash was well above current liabilities in both 1935 and 1934, at the end of 1936 the companies were $140,000,000 short of being able to pay off their short-term liabilities. For working capital ratios see preceding page.

mounting appreciably. Business men are cooking up pretexts to drop in to see their bankers. The process is one of "feeling out," but it will be followed by actual loans just as inquiries on prices are usually the prelude to orders. And there will be plenty of credit to go around. Banks, if necessary, can rediscount at the Federal Reserve (and the laws today are so flexible that virtually any kind of paper is discountable; Senator Glass has said that the Reserve can now take in "cats and dogs," which is perfectly true.)

Furthermore, Marriner S. Eccles, chairman of the board, is dead sold on cheap money and easy money. It is an integral part of his monetary program to control price inflation. If reserves drop too low, the Federal Reserve will enter the open market to buy government bonds to pump reserves into banks. In fact, the Reserve has already bought a few bankers' bills, just to indicate that Eccles means what he says.

All of which is portentous as well as reassuring. It portends an ascending spiral of borrowing, as industry replenishes anew its working capital. Further, it portends a shift in the balance between the supply and demand for money. Today there is lots of money and few takers, tomorrow . . .

WORKING capital is to a corporation what cracked corn is to a chicken. If there isn't enough, there aren't any eggs. And, just as the farmer kills off his chickens when he hasn't enough money to buy feed, so society, in its brutal economic way, exterminates the runts of the business litter. The weak, undercapitalized enterprise is taken over by the banks, or sold for a song to competitors, or hangs its head on the auction block.

But no business just poofs out like a candle. There are certain definite and ineluctable signs: payments for merchandise drag; insufficient funds are on hand to pay for raw materials or finished products; producers, wholesalers and jobbers demand cash payments for goods; quality is stinted; difficulty is encountered in meeting payrolls; loans, if any, are renewed by sheer force of circumstances. In short, liabilities become oppressive.

There are two basic causes for business failure: either (1) the enterprise was economically unsound to begin with, because its product or its personnel was inferior, or its production costs were too high, or its turnover was inadequate* or (2) its financial structure was unsound, and its unsoundness was emphasized and aggravated by its commercial or industrial inefficiency.

But many a business, otherwise efficient, has gone under simply because of poor financial planning. It had either insufficient capital, or the wrong kind of capital. Just as there are many breeds of cattle—some for beef, some for milk, some for cream—so there are breeds of money. In fact, there are seven breeds, and each must be in its proper place:

1. "Brick-and-Mortar Money"—As the name implies, it refers to money for buildings, warehouses and stores; anything fixed. Essentially this is 20-to-40-year money and is derived in part from initial common and preferred stock capital, and oftentimes in larger part, from bondholders or a mortgagee.

2. "Equipment Money"—For machines and everything that that embraces, from elevators to automatic tools to typewriters. Each machine has its prorated life. A turbine may last 20 years, a typewriter three, an automobile five. It depends on the business. This breed of money must be provided in part by the stockholders, in part, perhaps by manufacturers, who sell the machinery on terms, often with the assistance of finance companies and recently with aid from the Federal Housing Administration. Ordinarily, it is anywhere from three-to-20-year money, though some types of equipment, particularly in a business of quick obsolescence, like chemicals, might have to be written off in one to two years. Replacement properly should come from depreciation reserves.

3. "Style Money"—This covers a multitude of miscellany: desks, chairs, showcases, draperies—all depending on the nature of the business. A hotel in a large city, for example, would have to have lots of "style money." A factory would have very little. Basically, this is relatively medium-term capital, from three to 10 years, would be initially provided out of common stock funds, and would be kept up through depreciation or maintenance allowances.

4. "Wage Money"—James Mill would call this the "wages fund." It is what the business man has to have in hand at all times to pay his workers. It would be assembled out of the common stock investment. It is permanent capital, though not "fixed capital." But in periods of unusual business activity and high employment, firms do borrow on short-term (90-to-180 days) to take care of peak payroll requirements. (Wages and salaries, incidentally, are a first lien on unencumbered assets of a business after taxes and debts due federal and local governments.)

5. "Stock-in-trade Money"—This supplies the muscle and sinew of every business: inventories. And, like the "wages fund," it is a permanent requirement, though highly liquid and constantly revolving. To a department store it's merchandise; to an automobile plant, it's chassis, and fenders, and rolled steel; to a leather company, it's hides. The inventory, in large part, must be provided out of initial funds—common stock money, but it may (and is) supplemented by seasonal bank loans† or bor-

A Swift View of Bank Loans

In its annual yearbook for 1936, Swift & Co., world's largest meat packer, makes this observation on borrowing:

"In years of high inventory values, or whenever capital belonging to shareholders is inadequate, recourse must be had to bank borrowing . . . Loans of this kind are just what the packer needs. He borrows at the bank, say, for ninety days. He uses the cash to pay for livestock, supplies, labor and other costs. When his meat and by-products have been prepared and sold, he then has the money with which to pay off his bank loan at maturity."

* A recent 43-page study of business ratios, is "Fourteen Guides to Financial Stability," by Roy A. Foulke, published by Dun & Bradstreet. It covers 60 businesses from automobile parts manufacturers to women's specialty shops.

† Field warehouse companies, by storing marketable materials (such as cotton or wool) under bond, frequently make it easier to borrow from banks on unfinished inventories (*BW—Mar28'36,p16*). And factors will make advances, from 50% to 60%, on finished stocks, not yet sold.

rowings in the commercial paper market (*BW—Mar 6'37,p50*) and sometimes (for the extremely large enterprises) by short-term notes, three-to-five year.

6. "Open-book Money"—This is a pro and con item. All except cash-and-carry businesses (and always R. H. Macy's) extend open-account credits to customers. A manufacturer ships a hundred gross of safety pins to a department store. It may be 30 to 60 days before he is paid. During that interval, he is extending credit. In that sense, all producers, wholesalers, jobbers and vendors advance funds. In effect, they are temporary bankers to their customers. Commercial factors undertake to eliminate this "banking" phase of industry, and will purchase without recourse accounts receivable (*BW—Apr4'36, p22*). To the extent that a business is factored, accounts receivable are eliminated and there is no need for a credit or collection department.

7. "Till Money"—In most businesses, this would be petty cash and an inconsequential item; but in a retail establishment, such as a department store or a grocery chain, it would mount to a considerable sum. Necessarily, as a steady and indispensable revolving fund, it should be derived from common stock.

Commonest financial error is to get the breeds of money mixed up. A manufacturing company, for instance, might have a few slack years, during which it is not using a good part of its cash. Idle money hurts. So the managers decide to install new machinery. Then, when business picks up and it must expand inventories and payrolls, the company is long on equipment and short of working capital.

OF the seven breeds of money, four are distinctly working capital: wage; stock-in-trade; open-book, and till. Two are halfway between working capital or fixed capital: style, and equipment—if fixtures or machines have to be replaced every year or so, then they are part of a company's working capital, not fixed capital. Thus only one breed is absolutely and thoroughly fixed, or long-term, and that is brick-and-mortar money.

Working Capital—French Style

This was years ago. Dr. Paul P. Gourrich, now director of research for the Securities and Exchange Commission, after opening a charge account in a Parisian department store, purchased an ornate, pearl-handled straight razor. The next morning he shaved himself, slashed his cheek. That was enough.

He returned to the department store, informed the salesman that a straight razor was too much for him, asked for a Gillette which was just then making its European debut. No, the department store didn't have a Gillette, but Dr. Gourrich could have his money back. Dr. Gourrich protested that he didn't want his money back, that he had not paid cash for the razor and simply wanted the "return" to cancel out the "charge."

"No" replied the salesman, "that couldn't be done." Dr. Gourrich had to take the cash. Thus the department store provided him with a temporary franc loan. That was its way of doing business. It's a little more direct than the American way, but not so very different. When grocery stores or department stores "charge it" they are in effect extending working capital to their customers.

Inventories and Inflation

Inflation warnings—sounded first by Chairman Eccles of the Federal Reserve Board and then by President Roosevelt—seem to be borne out by the striking advance in inventories carried by American business. Stocks-on-hand at the end of 1936 topped 1929's by a narrow margin, but . . .

It is too easy to jump to band-wagon conclusions. Attempts have been made to compare the current period of price advances to 1920, when overstocked war merchandise bore down on an unreceptive market and broke it in the spring of 1921. At that time, demand was not in sight, whereas today business has been building inventories in anticipation of an active call for goods. But there is danger if that call does not come (*BW—Apr3 '37,p60*).

Therefore, business men, in going to banks, stockholders, or the investment market for inventory money, should bear in mind that "inventories for inventories' sake" can be a boomerang. Inventories, themselves, are not and never can produce enduring profits. It is wise to be cautious; not to be overstocked, not to buy indefinitely ahead—cocksure that purchases made today will bear a profit tomorrow.

On the other side of the picture, there is this: Stocks-on-hand are not greatly in excess of 1929. In some measure, the gain (of 200 corporations—see page 58) has been due to the expansion of the corporations themselves. They have added to their share of the country's business, consequently require greater inventories—both in dollar and unit volume, even though prices today are 9% lower than seven years ago.

There are no glib formulae saying that a business ought to have so much working capital and so much fixed capital. Industry cannot be put into pigeon-holes. Railroads and public utilities have a preponderance of fixed capital and a small proportion of working capital. That accounts for their consistently heavy bonded indebtedness. Motor companies (and most manufacturing companies) tend to have a half-and-half ratio, but that is far from binding. Wholesalers, jobbers and retailers, because they are dealing mostly in marketable merchandise—inventories—usually have a heavy proportion of working capital to fixed capital.

Capital structures should be balanced according to the nature of individual business; and here again there is no punctilious Hammurabic code. Each business man must work out his own problem in his own way. If he wants to play for a high percentage, he will use "other people's money" as far as possible. If he wants to play it safe, he will use John Bancroft's method and pay the undistributed earnings tax in order to hold on to common stock money, or he will do what Sewell Avery did when he paid out Montgomery Ward's earnings and then pulled the money back through issuance of new stock.*

But one thing can be said with certitude: As business expands, working capital requirements perforce expand. Usually, for each 10% rise in volume, working capital needs will jump 10% to 15%, depending on the particular price situation in the particular industry. Which is borne out conclusively by statistics of 200 major industrial enterprises. Working capital today, responding to the upsurge in business, is nearly 8.8% above 1935 and

* For other methods to evade or cut the surtax, see *BW—Oct31 '36,p13*.

16.8% above 1934, while inventories are not only far above 1935 and 1934, but top 1929* by a narrow margin. Current liabilities also are way up, which is reflected in part in the increase in bank loans to business (see chart p. 54).

Commercial banks, as in the past, will supply most of the additional working capital—particularly the short-term money, and they will compete to some extent with factors and finance companies and investment bankers on intermediate money—three-to-five years. The commercial paper dealer also will be in the competition. Which enhances the business man's money-buying power. If a company is large enough to use the open market, it can bargain on price.

The large company derives the full advantage of active competition. It can try its several banks, or sell commercial paper. Through its investment bankers, it can offer common or preferred stocks, or float bonds. It may raise a mortgage on its buildings. Or it can turn to factors or finance companies, if need be.

The small company, on the other hand, does not enjoy the same bargaining power, seldom can get as good a price when it hires money. Here, there are but three primary sources: (1) the local bank; (2) the owners of the business; (3) local capital.

But whether large or small, the business man should have a plan. He should project his business ahead, on paper. He ought to have a bogey, embracing both a balance sheet and an income account stretching over the next three to five years. Then, he will know just what breed of money his business requires: long-term or short-term; stock money, bond money or mortgage money; and from that, he will be able to judge what source to go to for it: his commercial bank, his investment banker, local capitalists, or others. More than that, because he has a clear idea of where his business is going, he will have a pretty fair idea of the risk the money is taking; therefore, he will realize the price he ought to pay for the particular breed of capital he is after.

Yet that is not especially new or striking. The successful business man who has survived one or more depressions, has been through working capital problems before. The only addition today is the surtax. That introduces a novel hurdle, but American industry is used to hurdles, so that also is nothing new. For business, as for Paula, in "The Second Mrs. Tanqueray," "the future [and the undistributed earnings tax] is only the past again, entered through another gate."

* The advance over 1929 is due in some degree to the fact that these 200 companies now enjoy a larger share of the nation's total business than they did seven years ago, but inventories have risen markedly in relation to working capital; in 1929, they were only 46%; at the end of 1936, they were 51%.

REPRINTS AVAILABLE

"BUSINESS, THE BANKS, AND WORKING CAPITAL"—third of *Business Week's* special reports to executives—will be available in reprint booklets. Single copies will be mailed to *Business Week* readers upon request, without charge. Additional copies will be billed at the rate of 5¢ apiece.

Requests for reprints, whether for single copies or quantities, should be addressed directly to Glenn Griswold, Editor, 330 West 42nd Street, New York City.

Similar offers were made to supply reprints of the two previous reports—"Public Relations, First in the Order of Business," in the issue of January 23; and "Industry on the Move," in the issue of February 27. As a result, *Business Week* has mailed some 40,000 reprints.

Many of those who requested these two articles also asked that they be sent copies of future reports. However, *Business Week* feels that only after the reports have been published can individual subscribers determine if they will have use for extra copies. Therefore, the present offer is limited to this article—future reports must be ordered after they have appeared.

Business Abroad

While arming at a furious pace, European nations cling to the hope of building peace by the conference route. They would like to star Mr. Roosevelt, but—

BENEATH the clangor of Europe's war anvils, sensitive ears detect a whisper and a hope. If the international restrictions which are garroting trade can be eased, perhaps the anticipated gun-play will become unnecessary. Thus while straining every muscle to out-arm the other fellow, statesmen also speak in small voices of conference-table settlements.

Europe Is Willin'

Since Mr. Roosevelt scuttled the London Economic Conference of 1933 official Europe has been gun-shy about mentioning another. But *Business Week's* foreign editor in recent explorations in darkest economic Europe has repeatedly encountered unofficial admissions that peace hungers accompany war preparations, that if Mr. Roosevelt from the height of his present prestige were but to say the word the Powers would make a sincere struggle toward adjustments through agreement.

Russia's fat and factual commissar of foreign affairs, Maxim Litvinov, told *Business Week's* foreign editor that an immediate conference would be a waste of time and steamship fares unless preceded by painstaking foundation work to insure results. There now comes a faint stirring in the tool room of foreign offices as of statesmen hefting spades for preliminary ground-breaking.

Belgian Trial Balloon

The British and French governments announced this week that they had requested Paul van Zeeland of Belgium to study and "collate national ideas on trade expansion." The field is large enough to include all the quotas, tariffs, and currency jugglings that hamper international business. It would be the easiest thing in the world to follow the van Zeeland findings with a definite move for an economic conference.

Nobody expects an immediate frontal attack on these problems. President Roosevelt has a troublesome Congress on his hands. After that adjourns the international stage may be set for his entrance with suitable orchestral accompaniment. The curtain might rise this fall. A full cast would include tariffs, quotas, blocked exchange, currency stabilization, and a pony chorus of minor subjects. Just now F.D.R. is looking out the window.

This Monsieur van Zeeland, of Belgium, is a man worth watching. He first attracted world attention in 1935. Hastily summoned to head the government, he engineered the first break from the gold bloc, devaluing the belga by 28%. His reforms in governmental finance and banking have been followed by a remarkable recovery throughout his country. Van Zeeland is only 42 years old. He studied and worked in the United States after his release as a German war prisoner. His "New Deal" program is called "National Renovation."

Van Zeeland's background is banking, not politics. He recently resigned as premier to oppose Leon Degrelle, leader of the pro-Nazi Rexists, in the fight for a Chamber seat at the polls on Monday, Apr. 12, and the recent French and British gestures, suggesting the van Zeeland study, have afforded some timely campaign publicity.

If this week's sugar conference in London should, by chance, lead to some outside understandings which would pave the way for a parley on broader international problems, so much the better. The sugar discussions, as such, aren't expected to mean much to the United States.

In fact, the United States price for sugar is a little more than 2¢ a lb. above the world quotation and there seems little danger of the latter catching up. Moreover, Cuba, largest producer, can get 2½¢ a lb. for raw sugar it sells in the United States, after paying the duty. The part of Cuban production sold in the world market brings from 1.3¢ to 1.4¢. This price differential is maintained by a quota system, whereby Cuba, the Philippines, Hawaii, Puerto Rico, and the Virgin Islands are allotted their slices of the American sugar market.

As long as this situation is preserved, with domestic producers enjoying a home market for 1,884,000 tons at a price of nearly 3¾¢ a lb., the United States isn't calculated to become an exporter. Consequently, America's observer at the conference, Ambassador-at-Large Norman H. Davis, isn't expected to be kept very busy talking sugar.

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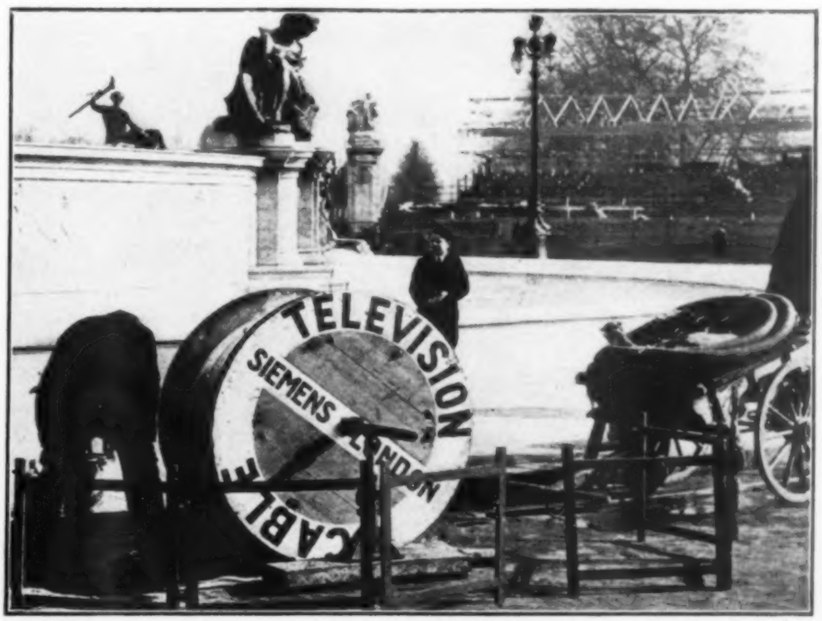
Great Britain

LONDON (*Cable*)—The strike epidemic invades England. In Glasgow 6,000 apprentices are out. London busmen threaten to leave work two weeks before coronation unless shorter hours are granted. Railway men also talk of a strike after August unless there is a full restoration of the 1931 pay cut. These are in addition to various small strikes in the aircraft and laundry industries.

South Wales miners have signed a four and a half years' truce with owners at new wage rates.

Agitation over the food shortage



Acme

TELEVISING THE CORONATION—Having been tested with daily experimental broadcasts from Alexandria Palace, the Marconi-E.M.R. system of television, upon which the British Broadcasting Corp. has finally settled, will face its biggest and most spectacular test on May 12. Workmen are laying the cables that will pipe the coronation show direct from Buckingham Palace to the transmitter, and retailers of receiving sets are preparing for record showroom crowds. (More than 65,000 have visited General Electric's display this year.)

International

AN OLD-TIMER'S VIEW OF THE COMING PARIS EXPOSITION—This picture of the river-bank site, showing the progress in work on the exposition, was made from Eiffel Tower, which itself was formally opened for the 1889 Paris exposition. On the Ile du Cygne (Swan Island), in the center, the colonial buildings are constructed. In the foreground the regional sections are going up.

grows. Millers say this country has but three months' supplies but it is known that in February supplies were down to less than 17 days' requirements. Popular feeling expresses itself in angry protest that, after two years of rearmament plans, no storage facilities have been provided and no stocks brought in, though Canada made large offerings last year at low prices.

The boom in newsprint shares also warns the public of possible drastic change in newspapers next year owing to the possible absorption of present profits by higher costs. Finland is selling newsprint for delivery in 1938 at £12-15d against £8-10d this year. Russia is said to be preparing to enter the pulp market. She has hitherto consumed her own output. Even if this is true, it will be two years before Russian supplies can affect the market.

An Empire's Worries

Hitler's embargo on sisal hits the British empire but hastens the possibility of a general conference or offer by Roosevelt. London worries about new anti-British outbursts by Mussolini plus Hitler's protests against South Africa's ban on Germans participating in political organizations. There is also a political situation developing in India which may draw troops eastwards and precipitate heavier recruiting. The recent election fanned the flames of Indian nationalism.

Opening here of the ideal home exhibition shows a concentration on coronation colors and decoration schemes, but retailers report a disappointing response by the public to novelties. It is freely admitted that Edward's abdication took the glamor from royalty.

The budget forecast is unchanged with small increases both in the income tax and some indirect taxes. These are mostly gestures rather than revenue devices since all that is wanted will be raised by borrowing, plus the natural increase in yield of present rates.

France

PARIS (*Wireless*)—Beginning on Monday the 40-hour week was applied to retail trade, insurance companies, and banks. The latter will be closed all day on Saturdays while practically all retail stores will be closed on Mondays, though there may be exceptions during the Exposition.

Business is stationary with the short week hampering production due to a shortage of trained labor. Textiles, particularly silk, are worried about rising costs and prices, mostly due to labor legislation.

The Paris Bourse is irregular, being strongly influenced by international markets.

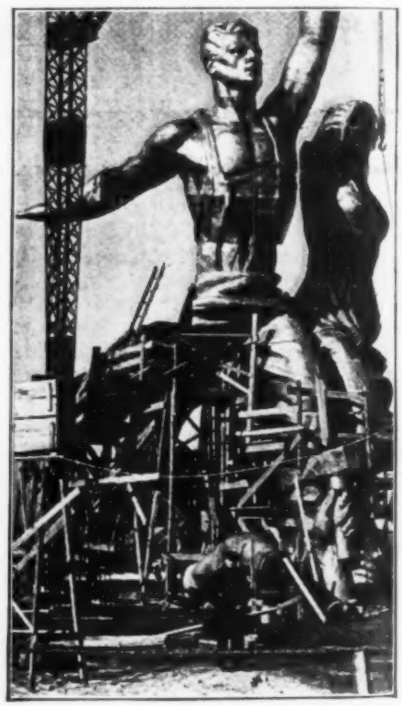
France and Britain are requesting Premier van Zeeland of Belgium to investigate the possibilities of calling an international conference to discuss economic disarmament, meaning the razing of monetary trade barriers to stimulate trade interchanges. This follows the Oslo conference where the Scandinavian countries, with Finland, Belgium and Holland, adopted a common trade policy. Hitler's financial wizard, Schacht, is expected in Brussels about the middle of April for trade negotiations. He will be sounded out on the eventual cooperation of Germany.

The Little Entente's conference at Belgrade shows that these countries are prepared to stick together in accepting any satisfactory arrangement with their powerful neighbors and maintaining friendly bonds with western powers. But they are reluctant to enter any general mutual assistance pact since they want to preserve independent control of their foreign relations.

Germany

BERLIN (*Cable*)—Berlin views the new Belgian move for international trade settlement with inveterate "conference scepticism." Germany persists in the attitude that under present conditions bilateral agreements, whether political or economic, represent the only practical means of mitigating tariff barriers and other trade restrictions. German reluctance and aloofness also is dictated by apprehension lest the general showdown would result in pressure on Germany to abandon its artificial system of monetary and commercial isolation.

Quarterly report of the Institute for Business Research stresses that consumers goods industries, which heretofore have lagged behind the recovery surge in capital goods, are beginning to



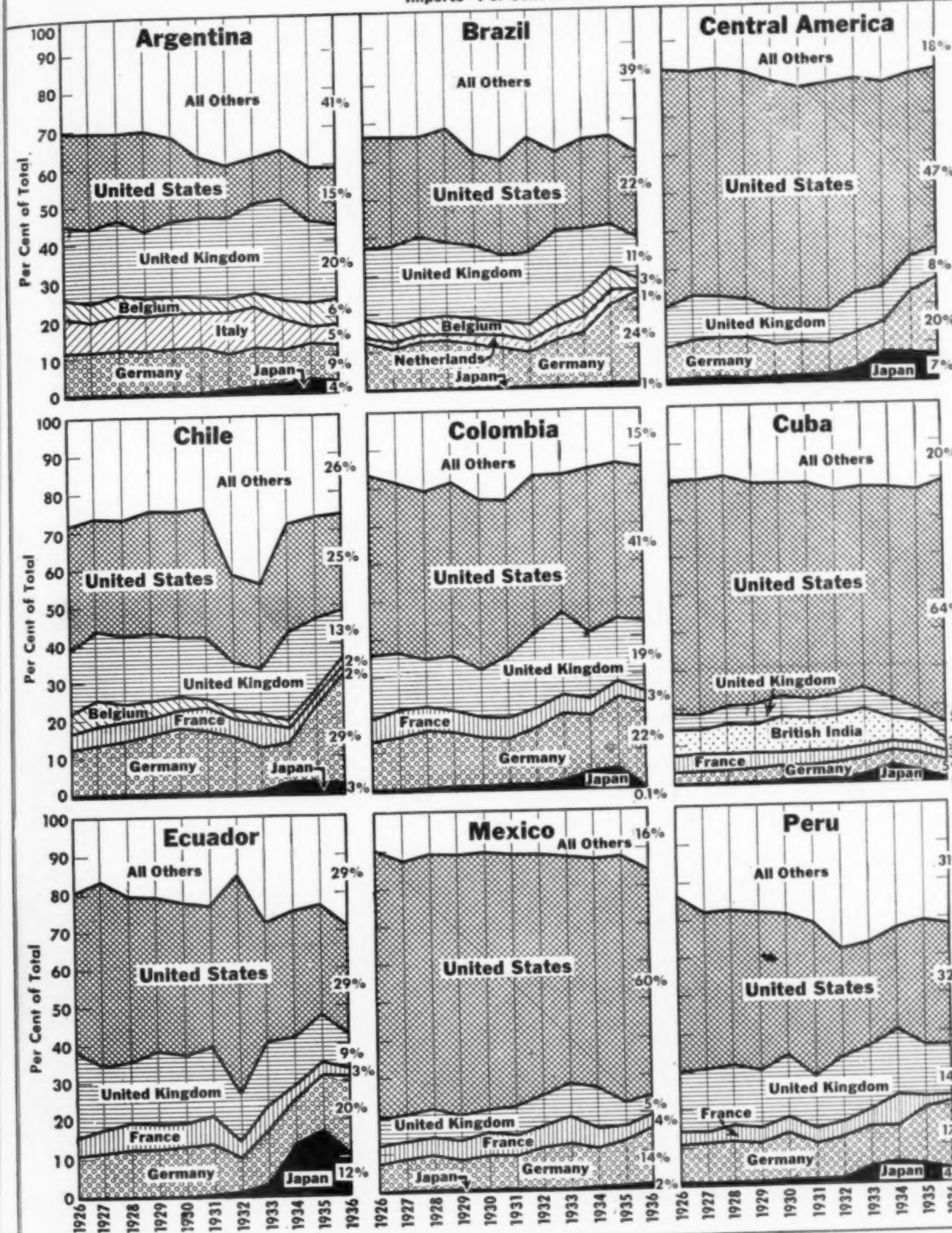
Sovfoto

SOVIET VISITORS TO FAIR—A young soviet worker and a "kolkhoznika" (collective farm girl) made of stainless steel sheets and towering 84 feet, are destined for the U.S.S.R. pavilion at the Paris exposition. When completely assembled and placed on the 110-foot pavilion tower, they raise the hammer and sickle to a skyscraper height.

WHO SELLS TO LATIN-AMERICA?

Business Week's Examination of Foreign Trade Shifts

Imports—Per Cent of Total



The United States, though it slipped a little, was still the major supplier in most large markets. Germany, with continued export subsidies, made outstanding gains. Japan's losses were due to shifts to quality goods, German competition in cheaper lines, general tightening of trade ties with western nations.

1936 partly estimated

International

A PHILIPPINE WANT AD—The right to vote is what the islander suffragettes are after, and whether they get it or not will be decided this month at a plebiscite climaxing long agitation. According to the poster, any woman who is 21 years old and above and can read and write any dialect, English or Spanish, is qualified to vote. Three years ago the United States provided for recognition of Philippine independence after a ten-year commonwealth government.

catch up and have almost reached the 1929 level. However, the materials shortage remains the principal obstacle to further expansion.

The other serious problem discussed in the report is the possibility of maintenance of the isolated stability of internal German prices under increasing pressure by rising world raw material prices. Through recent decrees the government had to permit certain adjustments of German prices to world prices but rising manufacturing costs still tend to reduce further the already narrow profit margin of industrial corporations. This accounts for the continued stagnation of stock markets.

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Canada

OTTAWA—The C.I.O. is invading Canada. Hugh Thompson, English-born agent of John L. Lewis' labor organization, has come over from the United States to promote plans for organizing all Canadian labor. He aims "to enroll 3,000,000 Canadian workers." The government census gives the number of Canadian wage-earners as 2,500,000, of whom only 281,000 are members of unions. C.I.O. will avoid clashes with A.F.L. in Canada at the outset, according to Thompson, who will start in automobile, rubber, textile and steel industries.

Social security gains: The Quebec legislature has passed a child labor law empowering the government to prohibit employment of children under 16 in certain lines of industry and commerce; also a bill to pension needy mothers of at least two minor children if husbands are dead or in mental hospitals.

Biscuit merger: George Weston Limited, Toronto baking company, has acquired control of the old McCormick biscuit firm of London, Ontario, in the latest of an extensive series of biscuit company mergers. The two concerns will continue as separate entities. Weston interests have been acquiring control of large bakery plants in Great Britain.

Airways Bill Passed

The House of Commons has passed Transport Minister C. D. Howe's Trans-Canada Airways bill providing for mail, passenger and express service across Canada. Operation is now expected to commence in September on a schedule of five hours from Halifax to Montreal, 16 hours from Montreal to Vancouver. Toronto has been left off the main line which will go northwest from Montreal. Trans-Canada will link with British-Irish-Canadian transatlantic service at Montreal which Minister Howe expects to be open within 12 months.

Parliament is considering legislation empowering the government to control manufacture and export of arms and munitions under checks and permits. Export to any country or countries could be curtailed.

Relief for city street congestion: Montreal aldermen have approved a plan for widening streets by converting the ground floor of buildings to depth of 25 feet into sidewalk space in the form of arcades.

Since Jan. 1, 1936, when the United States halved the duty on Canadian whisky, Canada has supplied Americans with 6,000,000 proof gallons. There remain 20,000,000 gallons sufficiently aged for export.

Far East

GENERAL Hayashi's government caught the opposition political parties off balance last week and unexpectedly dissolved the Diet. Japan is now in the throes of an election. The premier reproached the legislators for insincerity in delaying government bills. His hope is that the new Diet will be more tractable.

Bitterness of the politicians is evident in their campaign outbursts. They had considered themselves sufficiently docile to the "stop-gap" Hayashi government. Dissolution came just the same. From 30% to 40% of the incumbents expect to be defeated.

Now They're Wooing China

Main planks in the government's platform is conciliation of China and rehabilitation of Japanese finances by orthodox means. Pronouncements have been made to allay fears that the government is receptive to ideas of young army hot-heads who would inaugurate complete state control on their admired German model. Finance Minister Yuki has seconded Foreign Minister Sato in making soothing sounds for China's benefit. Mr. Yuki told newspapermen that the army now agrees "that economic cooperation in China is essential."

While an army leader heads the cabinet, it is generally agreed that Finance Minister Yuki is the key personality. Into his hands have been placed the problems of finding funds for arms and trade expansion.

Japan is suffering a recurrence of "mission fever" as part of the effort to prop foreign trade. A recent delegation was rebuffed in China by refusal of cooperation until Japan modified its hard-boiled tactics in the north. Other missions will visit the Dutch East Indies, Central America, South America, North America, Europe. Decline of Japanese sales in Latin America is of major concern.

China's Trade Improves

Despite its troubles, China's trade expands. Imports for January and February were 162,000,000 yuan, a 31% gain over the first two months of 1936. Exports were 167,000,000 yuan, a gain of 43%. The United States maintained its lead in both categories supplying 19.1% of China's imports, taking 39.8% of her exports. Japan, Germany and Great Britain followed in the order named.

China's ancient silk industry is to have a chemical rival. Rayon plants are to be established as semi-governmental enterprises. The first will be at Wusih, 100 miles from Shanghai. To protect the raw silk market, output of all plants will be limited to 50 tons daily.

Money and the Markets

Chrysler settlement is not a strong enough constructive force to offset Roosevelt's price statement and the fears of a commodity collapse. Copper goes down, but producers can still make good profit.

SETTLEMENT of the Chrysler strike should have been a great consolation to the stock markets this week; so should the Federal Reserve's announcement that it stood ready to buy government bonds, if necessary, to prevent a credit squeeze. But these constructive forces weren't nearly strong enough to lift traders out of the gloom caused by President Roosevelt's statement on durable goods and prices and by signs of a commodity crackup. Especially at a time when stocks were already a mite topheavy.

What was demonstrated was this: Commodity markets are much trickier than securities markets, much more difficult to gauge when speculation has been extended to dangerous proportions. To those unfamiliar with commodity markets, it's a little hard to realize that there isn't the same kind of support for wheat, cotton, cocoa, copper, and rubber on a break that there is when stocks get tipsy.

Commodities Are Perverse

The main factor is that industry never buys commodities on a declining market. In stocks, there always are a lot of sold-out bulls after a protracted rise, and they want to climb aboard on the setbacks. But in commodities, the consuming industries stock up when prices are going up, and then go on a buying strike when the tide turns. They may cancel some of the orders placed for future delivery, or even sell from inventory accumulated at lower prices.

It's that inherent perversity of the commodity markets which has been worrying sober observers in this 1937 economic situation. An extended price decline can so diminish the business of raw materials producers (while manufacturers draw on accumulated inventory) that purchasing power of workers in producing lines is reduced and the whole industrial machine slows up.

A Fight Over Reo

Control of Reo Motor Car Co., up to its hub caps in red ink ever since 1929, is being sought by a group which is reported to be headed by Frank A. Vanderlip, one-time undersecretary of the Treasury and former head of New York's National City Bank. A committee, of which Frank A. Vanderlip, Jr., is a member, has sent a letter to stockholders asking for proxies.

Old-time automobile man, R. E. Olds, quit Reo in January and the company discontinued passenger car manufacturing to concentrate on trucks. The Eastern capitalists want to put the company back into passenger cars, also into black ink. Several undercover battles were waged —unsuccessfully—for Reo control back in the late 20's, but this is the first reported in recent years. (REO, if you haven't guessed, is spelled with Mr. Old's initials. Oldsmobile, General Motors product, also is a namesake.)

That's one reason the copper industry hated to see prices going up so fast during the last six months. And it's exactly the reason stock prices cracked following Tuesday's drop in copper from 17¢ to 16¢ a lb. The stock market was afraid (1) that the decline in the red metal would snag the speculative boom in a lot of other raw materials, and (2) that any general weakness in commodities might seriously hamper recovery.

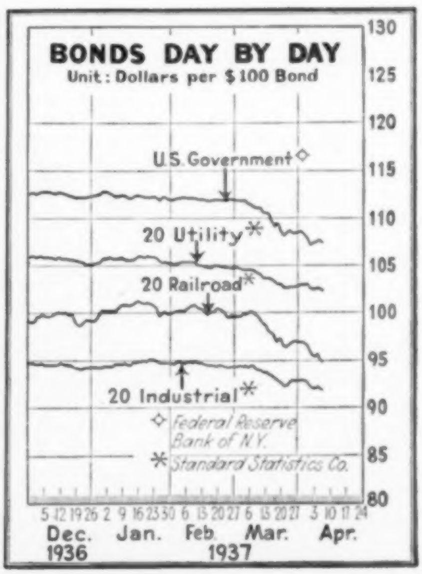
Upon this single metal—copper—hung many of this week's developments. It had been one of the biggest speculative features abroad, and forward buying domestically had been large. The price ran up from 9¾¢ to 17¢ a lb. in barely six months. Finally, the price Europe was willing to pay for the red metal backed away from the United States quotation. Domestic producers cut their price to 16¢ and European bids dropped below that figure.

Corn Takes a Tumble

Simultaneously, speculators in other commodities got scared and ran for shelter. Corn, which had soared 17¢ a bu. in a little over three weeks, tumbled. Rubber, beset by news that shipments from the East Indies were increasing, cracked from its recent peak levels above 27¢ a lb., and for a while it looked like there wasn't any bottom in the market.

Small wonder that, as early as midweek, the copper people began to doubt whether they could maintain prices, even at the lower levels prevailing after Tuesday's price cut.

And yet, it must be pointed out that speculators in the copper shares were more scared than hurt. The producing companies can reward their stockholders handsomely, even if the price of the metal goes down to 13¢



or 14¢. If you don't believe it, watch for first quarter reports. They will reflect near-capacity business done at average prices of something like 12¢ a lb. due to large deliveries on contracts written last year. And they'll make the best showing that's been seen since 1930.

Whether the Rooseveltian dictum on discontinuance of federal relief spending which bolsters heavy industries, and his pronouncement of dissatisfaction with skyrocketing commodities (see page 13) turned the markets sour is of little consequence. He probably can take the blame from the speculators and the credit from those who were anxious to see things slowed down.

Some Public Works Remain

Actually, however, the President's statement probably wouldn't have been enough, in itself, to send stock or commodity prices tumbling. Federal expenditures on public works no longer are a big factor—industry is doing vastly more heavy construction than the Public Works Administration. On top of that, federal expenditures on heavy construction won't entirely cease; there are no present plans to drop tools and go home on such government projects as the big dams in the Tennessee and Columbia river basins, for example.

Moreover, the government, it may be supposed from the President's remarks, intends to divert funds from public works to work relief. The Works Progress Administration, then, will be pumping funds into consumer channels. Thence the money goes into expenditures for raw materials, plant and equipment expansion, interest, and dividends. In other words, it goes 'round and 'round, the heavy industries benefit from prosperity of consumer goods producers, and recovery isn't exactly hamstrung during the process.

If commodity and stock traders fear that the chief executive is going to think up new means of curbing the price rise, thereby controlling inflationary tendencies, that's one thing. But if they are simply frightened by the threat of diminished expenditures on durable goods, that's something else again.

Credit Control Plans

Traders still have the solace of the ostensible about-face of the Federal Reserve on credit control. The plan to buy government bonds in the open market if credit seems to be getting too tight, or if banks need help to slide past the boost in reserve requirements May 1, is equally a guaranty that money market disturbances are not to be allowed to interfere with industrial progress. And if industry skims along, stocks aren't going to fall too hard.

Incidentally, the Federal Reserve open market policy isn't as much of a back flip as it is painted in some quarters. The central banking system undertook, as early as last August, to pare down the prodigious excess reserves of member banks. This it did by three successive increases in reserves required against deposits, the third to go into effect the end of this month. At that time excess reserves are not supposed to be much over $500,000,000, thanks, too, to gold sterilization.

Long ago it was emphasized that the Federal Reserve would undertake to manage credit, once excess reserves were down to a manageable level. The most direct and effective means of control is purchase and sale of government securities by the 12 Reserve banks. The way is now paved for it. It probably wouldn't have much inflationary implication if the policy hadn't been arrived at just when government bonds sorely needed a helping hand.

Facts on Hot Money

Treasury reports that U.S. has received more than 2½ billion in two years.

THE knotty problem of "hot" money is still with us. Foreign capital flowed into the United States to the tune of $325,099,000 in the final quarter of 1936, $1,158,528,000 for the year, the second report of the Treasury on this subject reveals.

That it is a problem which impinges most directly on the securities markets is indicated by brief study of the figures. Purchases of American stocks and bonds from abroad amounted to just a little more than the total net capital movements for the fourth quarter, coming to $328,167,000. There was a trifling increase in short-term balances, but it was more than wiped out by a drop of over $10,000,000 in brokerage balances to $12,850,000.

Figures for Two Years

The Treasury figures go back only as far as the beginning of 1935. They show a net flow of $1,360,312,000 to the United States in the form of short-term balances in the two years and of $1,233,587,000 in securities purchases. Adding on brokers' balances, that comes to a grand total of $2,606,749,000. In the light of Department of Commerce estimates, if Treasury figures were carried back they would probably show total foreign capital in this country of something more than $7,000,000,000.

This latest Treasury report shows figures for the last quarter of 1936 in addition to those for the preceding 21 months, previously gathered. The study therefore includes the statistics for the weeks immediately following the currency devaluation by the gold bloc nations, and it was during those weeks that the biggest influx of foreign money in the last two years came into the market for the purchase of American securities.

England, as always, was the biggest buyer of American stocks and bonds in the six weeks following the gold bloc's foldup. But there is reason to question if London's big purchases of American securities didn't represent flight of capital from the continent via Britain. This suspicion stems from the fact that France, Holland, and Switzerland were supposed to have been heavy buyers of sterling, and probably transferred part of those balances in Britain to New York for subsequent investment.

How It Was Divided

However that may be, Europe bought $253,378,000 worth of American securities in the six weeks ended Nov. 11. The main buyers were: England, $100,946,000; Switzerland, $34,593,000; Holland, $27,790,000, and France, $10,029,000. Just how heavily they were buying is indicated by the fact that Europe took only $74,789,000 of securities in these markets in the final seven weeks of the year compared with total purchases of $253,378,000 in the six weeks immediately preceding.

European countries, on the other hand, were cutting down their short-term balances during those weeks of their heaviest securities purchases. They reduced these short balances by nearly $100,000,000 to a total of $1,321,267,000.

Italy and Reich Sold

Italy and Germany, both strapped for funds and trying to force their nationals to repatriate their money, were the only important sellers of securities last year. Both countries have been liquidating their holdings of American securities (although buying foreign securities in this market, presumably their own) ever since the Treasury began compiling such data. However, their business is but a drop in the bucket, with Germany selling $7,455,000 of American securities in the two years and Italy disposing of $3,330,000.

The Treasury doesn't undertake to estimate the part of this foreign business which represents buying from abroad for Americans. Wall Street has professed to believe for a long time that many Americans—directly, through holding companies, and through banking connections—were heavy traders in

American stocks in London and in Canada. Washington has taken the opposite view of the subject.

The Treasury report does list "transactions executed abroad for domestic account." If this reflects anything like the total of such American trading, it doesn't amount to a hill of beans. For instance, total "transactions executed abroad for domestic account" which were handled in Europe came to only $5,585,000 of purchases and $8,382,000 of sales. (Thus Americans' trading through Europe, so far as the Treasury has a line on it, reduced their holdings of domestic securities by about $2,800,000.)

There is a bit of business done through Canada. Total transactions for Americans executed abroad, however, were only $16,103,000 on the buying side and $13,094,000 on the selling when Canada and others besides Europe are included.

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Deposits Down, Loans Up—Usually when business goes to the banks to borrow, deposits rise. The banks, in effect, create deposits by extending loans. But that did not happen in the first three months of this year. True, the banks increased their loans, which means they placed a greater amount of credit at industry's disposal. Yet deposits declined. There is a reason.

Banks liquidated government bond holdings. And banks, when they buy securities, increase deposits. They use their assets to buy investments, which has the effect of putting bank checks in the hands of sellers. When these checks are deposited in banks, deposits rise. And conversely, when banks sell their investments—government bonds or other securities—they get checks from the purchasers, who thereby reduce their own deposits with banks, and deposits as a whole decline.

Thus, when banks sold their government bonds, they reduced deposits more than the loans they extended to business increased deposits. When banks buy or sell securities the effect on corporation or individual deposits is much the same as the effect Federal Reserve open-market operations have on member bank reserves. That is, banks by buying securities increase deposits; by selling, they decrease deposits. When the Federal buys government bonds, it increases bank reserves; when it sells, bank reserves decrease.

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Gelded Gold Again—The Treasury now has sterilized more than $350,000,000 of gold and, within the next few days, that total will be over $400,000,000. The latter estimate is based on engagement abroad of gold in the amount of $59,600,000 last week. Actual imports in the week ended Mar. 26 were $31,883,638 compared with $33,831,284 in the preceding week.

The most important feature of these figures is that between $350,000,000 and $400,000,000 has been corralled before it could go into the credit base (where it would make possible credit expansion of several times its own amount).

It is costing the Treasury a good deal more to sterilize gold now than it did when the program was launched (*BW—Dec26'36,p43*). The Treasury has to sell bills to do the gelding, and nine-month bills were snapped up at an interest cost of little over 0.1% (on an annual basis) four months ago; now the interest cost is running between 0.6% and 0.7% on nine-month bills.

If the Treasury were to sterilize no more gold, or only part of the influx, it could save money and at the same time foster the credit ease so dear to the hearts of the authorities. However, Sec. Morgenthau only this week reiterated that no change is now contemplated in sterilizing policy. In fact, it would necessitate a decidedly face-losing back flip for the control-the-boomers to abandon the gold sterilization program now.

Of course, the buying price of gold could be cut (Fred I. Kent is reported to have suggested that to the President) to, say, $30 instead of the present $35 an oz. That, presumably, would stop the flow of the yellow tide to these shores. But it would also play hob with the "profit" chalked up on the Treasury's books by revaluation. Further, it would be unprecedented for any body politic to increase the gold content of a currency—they always move the other way.

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A Real Problem—The Securities and Exchange Commission has had some tough questions to answer in the last few years, but it was handed one of the toughest of all by Associated Gas & Electric the other day. Associated Gas & Electric Corp., subsidiary of Associated Gas & Electric Co., filed a registra-

tion statement with the SEC covering $10,000,000 of debentures.

It did this to comply with the Securities Act. Now the Public Utility Act of 1935 requires holding companies to register and place themselves under the jurisdiction of the SEC. If they don't, they aren't supposed to sell securities to the public. But A.G.&E. hasn't registered and its lawyers told the SEC such a course isn't necessary to the sale of these debentures because "it is our opinion that the Public Utility Holding Company Act is unconstitutional in its entirety . . ." So, the attorneys add, failure to register or otherwise comply with the act, will not "affect the validity of the issuance of such debentures."

The SEC hasn't decided whether the lawyers are altogether correct in their deductions. It's a question of whether the SEC can allow these debentures to be sold by the holding company when, if the act is upheld in the courts, the commission may later decide that it has to dismember the big utility system (*BW—Feb20'37,p60*).

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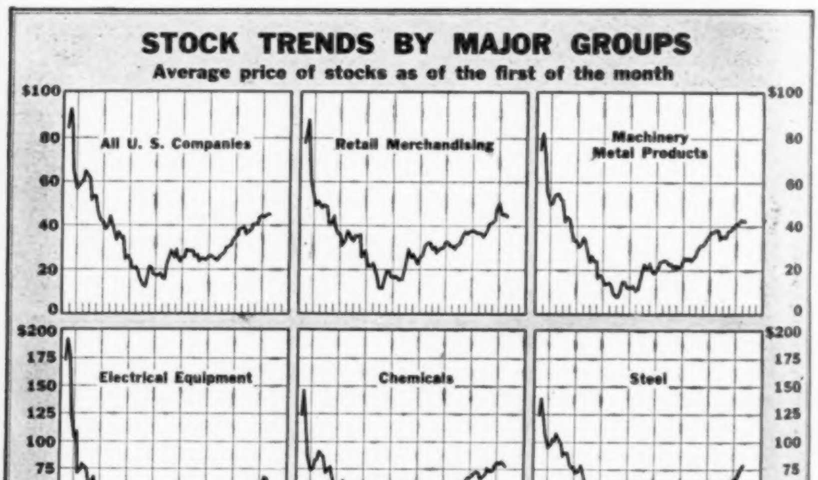
New Financing—Among the most gun-shy members of the financial community right now are the investment bankers. Immediate cause of their discomfiture is the recent break in government bond prices, accompanied by sinking spells in liens of all classifications. But an equally vital factor is the virtual buying strike on the part of banks which has persisted for weeks.

There is some slight hope for revival in the new issue market, based almost entirely on the government's first plan of positive action for maintaining low interest rates—the Federal Reserve's promise that it will buy Treasury bonds in the open market if there is any need for such purchases. (Need for such buying could develop if government bonds took another nosedive which threatened to tighten the interest rates, or if the money markets were pinched when higher reserve requirements were posted May 1.)

Until the bond market takes a real turn for the better, investment bankers are on a starvation diet. February financing was at a snail's pace, they thought, but it was impressive alongside of March. Last month's bond offerings, according to the *Wall Street Journal*, came to a little more than $220,000,000, including the $130,000,000 of Philadelphia Electric 3½s.

New issue after new issue has been postponed in the last few weeks. Investment bankers like to sell bonds in a rising market for the simple reason that, if they pay a little more than the going market value for an issue, the market catches up and the bonds sell readily. But the declining market of late February and March was no help.



Editorially Speaking—

THE Garde Hotel, of Hartford, Conn., is at Asylum and High Streets, near the railroad station, and a traveling man suggests that there's a peculiar appropriateness in the little ad on the hotel's envelopes:

When in Hartford
stop at The Garde
one block from R. R. Station
Asylum at High Street

WE'RE indebted to Kenneth Condit of the *American Machinist* for a description of the way to extract iron from red clay. Mr. Condit got his information from the inventor, a Pittsburgher. "For the quickest yield," says the inventor, "it is best to plant the fields in the late fall. Then about the middle of March the crop will be ready for harvest."

The way you plant the fields is this: Suppose you want to produce high-grade pig iron. You lay in a stock of "Iron Farmer, production formula No. 1," obtainable from the inventor. Then you set to work on a sizable area of iron-bearing clay land. "Plow the ground as for any good field crop and lay off in rows about one and a half to two feet apart. Care *must* be taken to make the rows straight, or you will have warped or wavy iron as a result. Then fill the rows about one-third full, for lengths of 20 or 30 feet, with a solution of 'Iron Farmer' (using formula No. 1), leaving a space of one foot at the end of every 20 or 30 foot length. When the solution has set slightly, cover the rows to a depth of five inches. Your field is now planted and nothing more need be done for from 10 days to two weeks.

"After the tenth day it will be necessary 'to throw the clay to' the iron rows by the same method used in the cultivation of corn or other crops that are grown in rows. Now your crop is ready to grow until harvest time.

"Your harvest is ready when the rich red color of the clay departs, leaving your fields gray and thus the color of pure clay free from iron content. Lay open the rows carefully with a tractor plow, the points of which as well as the wheels of the plow must be of non-magnetic steel so as to eliminate sticking or more serious trouble in opening the rows. If you have followed the directions carefully, each row will contain 20 or 30 foot lengths of pure pig iron, about six inches in diameter. When the rows are open the iron bars may be removed by any method you prefer, although I suggest the use of the magnetic trailer, on which I am now working. This trailer will pick up iron from several rows at a time, the bars being drawn to the underside of the carriage and held there until the end of the row is reached, when they may then be released and loaded upon trucks to be taken to the iron works."

AND at the iron works they might use the iron to make a combination cook-stove and bathtub, and thereby please Lowry Watkins, a Louisville realtor, who writes us that he has read somewhere about a combination cook-stove and bathtub and wants one for his farm. Who knows where he can buy one?

GEN. QUEIPO DE LLANO indignantly denies that when the rebels entered Malaga they engaged in wholesale executions. "On the first day," he says, "we imposed the death penalty on only 500." That shows self-control.

ONE of the costumes in the Paris style shows has a printed pattern of little open books, and the jacket lapels have silken printed pages that can be turned over and read. The ostensible idea is that for once you'll be able to read the women like a book. But even if it could be done, would it be worth it?

IRA N. MATTISON is a representative in the Vermont legislature, from Glastonbury. He is also town clerk of Glastonbury, and one of the auditors, and one of the selectmen, and one of the listers, and road commissioner, and grand juror, and fire warden, and one of the justices. Five people in Glastonbury hold all the town offices; they are all named Mattison or Hazard. Burlington, with a population of 25,000, has one representative in the Vermont lower house; so has Glastonbury, with a population of seven. For all Vermont municipalities are equally represented.

England cleaned up this sort of system a century ago, but Vermont wants another century to think it over.

A HEN in Berryville, Va., has laid an egg on which this message is said to be plainly legible: "War—1937—June 20." It may be a true forecast, but probably the egg of war will require a longer incubation.

IN Hollywood they're starting plastic operations on dogs, lifting their faces to get a better effect in the movies, and gosh, how grateful the dogs are!

A MAN who had 12 children and was expecting a thirteenth came home one evening and found on his doorstep a baby boy about two weeks old. But he hasn't cancelled the earlier order.

NOW Fascist Italy says it is a Moslem power. Viva Mussulmanini!

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The Journal of Business News and Interpretation

APRIL 10, 1937

Silence on Sitdowns

By means of sitdown strikes, the country has been put at the mercy of thoroughly irresponsible groups which in effect have no leadership, no control, no authority that can restrain them. Great industries, whose operations affect the daily welfare of millions, are confronted with demands to sign contracts with groups which, day by day and hour by hour, demonstrate that they have almost no control over their own people, no conception of the validity or the sanctity of a contract, no respect for the commonest code of ethics, no regard for property rights or for rights of any sort except their own.

It is no answer to say that the nominal leaders of these groups can't help it—that they are sorry they can't control their men. They have not only condoned the sitdown strike but have deliberately and officially made use of it, knowing it to be destructive and subversive. They used it when they obviously represented no right at all, either legal or social, as in the case of one Detroit department store where, after a sitdown strike, it was found that only 17 of the 200 employees claimed membership in the union.

If the nominal leaders of these groups were honest, if they deplored the tactics of lawless confiscation, they would have said to General Motors: "We haven't any right to ask you to deal with us as long as our members are violating a property right and trampling on the temporary agreement we signed with you a few days ago." And they would have put on their hats and gone out to end the sitdown and uphold the law and their own written promise. Instead they used the sitdown as a weapon against the company and succeeded in standing off the state and local governments. They used it later against other employers. Their example inspired its use by other groups, not only unions that belong to the Committee for Industrial Organization but some that are in good standing in the American Federation of Labor.

A new climax in this fever of lawlessness was reached when, at Albert Lea, Minn., after the sheriff had arrested 53 men for their connection with a sitdown and with its attendant violence, a mob prepared to break open the jail, and Gov. Benson ordered the release of all the prisoners. This incident was a new and dramatic proof that the sitdown strikes had reached an extremely dangerous point, dangerous socially as well as politically and economically.

And yet for three months the sitdown has been condoned almost everywhere by state and local officials, and condoned, too, by the national Administration, notably in the person of Secretary of Labor Perkins. According to a statement by President Roosevelt, Miss Perkins was speaking for him when she invited Mr. Sloan to confer with her and John L. Lewis during the General Motors sitdown. If Miss Perkins was speaking for the President on that occasion, it must be assumed that she was speaking for him during all the rest of that strike, and during the great strikes that have followed it. Therefore she was speaking for him when she repeatedly declared she saw nothing illegal in a sitdown strike.

This was the voice of the President's spokesman, and thus of the President himself. Nothing that President Roosevelt may say at this time or in the future can erase the fact that for three months he condoned the sitdown strikes, while the country looked to him, in vain, for a word of disapproval, of warning, of demand for law obedience.

High Prices For Building Materials

Something has been said before on this page about the danger of taking excessive advantage of a seller's market. The danger is particularly acute in the building industry. Aware of this, many large companies that sell building materials are disturbed. They are trying to avoid unreasonable price increases. But prices have risen so high that the average man who has saved some money and might be disposed to build is wondering whether he hadn't better wait.

Our emergence from earlier depressions was helped by new industries, but today we must mainly rely on a nation-wide revival in building. There are several favorable factors, including cheap money, a need for housing facilities, and a renewed interest in the home as the core of life. It is dangerous to thwart this revival by unnecessary price advances.

Real Purpose Of Reserve's Policy

Every business man ought to understand the open market operations of the Federal Reserve. These seem complicated but are essentially simple. When a Federal Reserve Bank buys government bonds in the open market, it pays with its check. If the seller is a member bank, it deposits this check with the Federal, and its reserves correspondingly rise. If the seller is an individual, he deposits the check in his bank, which redeposits it with the Federal, and again the bank's reserves rise.

Last year the Reserve Board decided to curb credit. The method it used was to double the amount of reserves which member banks must keep on deposit with the Reserve Banks. This increase goes into full effect on May 1. Many member banks, in order to bolster their reserves, have been selling government bonds. Now the Federal Reserve authorities announce that they will make such open-market purchases of government bonds as may be necessary for "orderly adjustment of member banks to the increased reserve requirements" and for "orderly conditions in the money market"—that is, for maintaining easy credit.

Actually, however, there has been no appreciable threat to easy credit; and the member banks are in pretty good position to meet the higher reserve requirements. The Federal Reserve's real purpose is apparently to help out the Treasury by assuring member banks that they need not hurry to sell their bonds, because if credit gets tight the Reserve will buy government bonds, thus increasing member bank reserves.

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